ROSETTA EXPLORATION INC.

PREPARATION
INNOVATION
EXPLORATION

ANNUAL REPORT TO SHAREHOLDERS 2001

Rosetta Exploration continued reinventing itself in 2001, developing core technologies for interpreting the geological record with new indicia of high-impact Prospects. With a strong belief system that ensures the team profits only when shareholders and partners do, our corporate mantra is to deliver shareholder wealth grounded on a high return on capital. We have a passion for creating and advancing new ideas with our technology and science that reveal geological history in new ways. The company's team of finders have developed one trillion cubic feet of Prospects and are working on two New Play Types and a portfolio of Plays and Leads.

Our adherence to sound risk management principles and efficient portfolio theory drives us towards drilling our best 12 ideas.

President's Message

In last year's annual President's Message, I made two important statements. Firstly,

"Each round of successful new deep discoveries was preceded by a new paradigm idea and/or an advance in technology."

This statement of belief lies at the heart of our business plan. Our exploration continues to involve conventional science and the conventional industry understanding of our basin, but what excites me is what we're establishing with new paradigms and technology.

During the past 24 months, we've focused on several technologies that could enable us to see the basin in a new light. We've progressed to the point where I'm beginning to see these technologies as fundamental to the core of what we do. They will be integral to the exploring of our "paradigm shifting" ideas.

We've advanced 2 "paradigm shifting" ideas during the past 6 months. They're the types of ideas that could unlock several trillion cubic feet if we're able to prove them correct.

"The entire Canadian oil and gas industry discovered 6 TCF of gas in 1999."

This second statement gives perspective to what we're accomplishing when Prospecting within the conventional realm.

At year-end 2000, we had 7 drillable Prospects of which 2 were very exciting (meaning P50 prize potential* of larger than 100 BCF). Exiting 2001, we have 8 drillable Prospects, 5 well locations selected and 3 very exciting Prospects. In 2001, we added Prospects at a prospect generation cost of $13,200/BCF.

Our definition of Prospect means that a significant amount of land must be owned by Rosetta. Land prices have impeded progress on some of our larger ideas.

From an efficient portfolio perspective, we share any concern you might see in that we don't currently have 12 large Prospects for statistical success purposes. This concern drives our focus for 2002; but, having a technically solid new Prospect added in 2001 with a P10 prize potential of 800 BCF and a P50 prize potential of 535 BCF, gives me some balance.

Should we drill our existing Prospects immediately? If we drilled all of our Prospects and had some success, statistically 5 times out of 10 that success (risked gross potential) would be 313 BCF** or greater. This must be balanced with the fact that currently we only have 3 large Prospects, so statistically the chance of having some success is only 62%. Conversely, there's a 38% chance that we would have no success at all.

It's this latter fact that caused your Board to decide that Rosetta shouldn't proceed to drill in 2001, and Rosetta should raise some more funds to restore our balance sheet.

These decisions, and some insights into our Core Technology, were pivotal in us deciding to not proceed with a letter of intent from a US independent to drill our Prospects. Difficult as this decision was, we believe it to be the correct decision. Hard decisions make great companies.

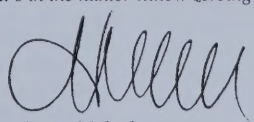
In December, we raised $4.5 million of flow through shares to strengthen our balance sheet and provide us with an ability to participate in drilling should we choose.

We enter the new year with cash, a clear focus, evolving Core Technology, progress on 2 potential paradigm shifting ideas, 140,000 net acres of land and a more conducive pricing environment within which to build a Prospecting company.

Modifications to our original business plan will include some shallower prospecting for cash flow to offset the long time frames of Devonian prospecting, more traditional partnering arrangements and, potentially, some participation in drilling.

They say 'patience is a virtue' … in building a true wildcat exploration company patience is not a virtue … it's an imperative … an imperative that must be embraced by shareholders and the team alike for success. In regards to that talented and dedicated team, we're ecstatic to have added 6 new, and most talented, individuals to our Advisory Board.

… potential for success is not in the hunt … it's in the hunter …now zeroing in on its target …



James Malcolm
CEO and Chairman
April 15, 2002

PREPARATION

Added $4.5 million of equity to the Balance Sheet

Added 56,000 net acres to our land position with 38,600 net acres on Leads and Prospects

Added 284 km of 2D seismic, 615 km^2 of 3D and 4600 km^2 of aeromagnetics

Completed the first phase of a major Devonian Study in our Area of Focus

INNOVATION

Advanced our Core Seismic Competitive Advantage Technology and Interpretation

Advanced Two New Play Types

Advanced our use of a promising Prospect Scoping Technology

EXPLORATION

Just completed the Environmental Review Process and Well Licensing for our Luxor Amun Swan Hills Prospect

If we were to drill our entire portfolio and have a success, then comparing our exploration portfolio from 2000 to 2001, we've grown a 50% risked chance of finding 112 BCF into a 50% risked chance of finding 313 BCF.**

please see 'definitions' section - page 26

***reflects gross risked Prospect prize potential and not working interest post drilling**

Our Board of Directors & Business Builders

We were pleased to welcome Jeff Smith and Doug Taylor to the board in 2001.

Board of Directors

We begin our annual report with our most important asset - the team.
We significantly grew the number of wealth creators in 2001

Mr. Clive J. Beddoe

Founder, Chairman, President and Chief Executive Officer of WestJet Airlines Ltd.
Entrepreneur Of The Year Award® recipient
International Entrepreneurship Award for Outstanding Teamwork recipient

Clive exemplifies the Rosetta vision—taking an idea from the ground up (literally) and growing it soundly into something big. WestJet took to the skies on February 29, 1996 with a fleet of three aircraft serving five destinations and has since become the most successful low-cost carrier in Canadian history. In 2000, it was the second most profitable airline in North America, just after Southwest Airlines. Also to Clive's credit are an office tower development in Calgary, the Career College, a paper recycling company and a plastics company. Clive became a Rosetta board member on June 24, 1999.

Mr. Kevin Brown

President and Managing Director, ARC Financial Corporation

As President and Managing Director, Kevin has senior responsibility for ARC Financial's investment management business. Kevin is a member of ARC Financial's investment committee and sits on the board of directors of various ARC Canadian Venture Fund 1 and 2 investee companies. His expertise in energy market and industry analysis and forecasting and related strategy formation and assessment is integral to the investment decisions of the equity group. Kevin had senior responsibility for ARC Financial's investment research business over the 1993-2001 period. He was also very active in ARC Financial's corporate advisory business through the 1993-98 period and was lead advisor on several significant engagements. Prior to joining ARC Financial in 1989, Kevin worked for a major Canadian research institute for several years where he was extensively involved in the development of economic models for both world oil markets and North American gas markets. Kevin has a Bachelor of Science (Chem. Eng.) degree and a Master of Arts in Economics degree. Kevin became a Rosetta board member on July 19, 2000.

Mr. Murph N. Hannon

President of Canadian Hydrodynamics Ltd.
President of Murcon Development Ltd.

Murph is President of Canadian Hydrodynamics Ltd., a company that is home to the largest drillstem test library for the Western Canadian Sedimentary Basin. He also heads Murcon Development, a private investment company engaged in oil and gas exploration, real estate development, and various manufacturing and product development businesses. Murph has been involved with WestJet Airlines since its inception, where he sits on that company's board of directors. He became a Rosetta board member on June 24, 1999.

Mr. James A. Malcolm

Chairman and Chief Executive Officer, Rosetta Exploration
Founder, President and Chief Executive Officer (1990-98) of AccuMap EnerData Corp.
Entrepreneur of the Year Award® recipient
Businessman of the Year Award recipient for the City of Calgary

Jim has abundant experience in building companies from the ground up. AccuMap created a software information system that revolutionized the Canadian oil industry and was twice a finalist for an Alberta Science and Technology Award. Prior to Accumap, Jim was a Managing Director of MerBanco Inc., a merchant bank. He was President and in charge of growing the investment side of the business. Jim was appointed to the Rosetta Board of Directors in January of 1999 and became CEO in April of 1999. He has never stopped challenging the team to think outside of the box.

Mr. Robert W. McKenzie

President, RSM Investments Ltd.
Co-founder and Partner with Northridge Canada
Co-founder of MetroNet Communications Corporation

Bob was CEO of E-Zone Networks Inc. from July 1999 until November 2000 and director from March 1998 to January 2001. Bob became the Executive Vice President of MetroNet Communications Corp. in 1997 and was a director of MetroNet until its $7 billion merger with AT&T in 1999. He also served as Chairman of MetroNet's Audit Committee. From January to December 1996, Bob was a consultant and strategic advisor to the CEO of TransCanada PipeLines Limited, prior to which he was President of TransCanada Energy Limited. Bob was a principal of and served as President of Northridge Canada Inc. and as Executive Vice President of Northridge Petroleum Marketing Inc., prior to its sale to TransCanada PipeLines. Bob became a Rosetta board member on June 24, 1999.

Mr. Greg Royer

President, Royco Hotel & Resorts
President, NRG Management Services

Another proven business builder—and a dynamic leader in Canada's hospitality industry. Greg and his brothers built one of the most successful hotel companies in Canada, the Royal Host Real Estate Investment Trust (REIT). The Royal Host REIT was created as a public entity in 1997 with the acquisition of 18 properties, and an equity issue that raised approximately $128 million. Prior to this, Greg and his brothers built the Relax chain of hotels, the Banff Rocky Mountain Resort and the Grand Okanagan Resort. His experience ranges from hotel development and construction to managing a chain of 27 hotels and resorts. Royal Host has established one of Canada's most successful sales and marketing teams. Greg has served on a number of national boards and organizations. Greg became a Rosetta board member on January 24, 2000.

Mr. Doug Taylor

Manager, Special Projects, Emergo Canada Limited

From 1999 to present, Doug has been the Manager of Special Projects for Emergo Canada Limited, a multinational equity investment group that pursues global opportunities for profitable growth through carefully managed acquisitions. Doug has over twenty two years of oil and gas industry experience (1977-1999) with Fracmaster Limited, a worldwide oilfield services company engaged in hydraulic fracturing, cementing and acidizing. During his tenure at Fracmaster, Doug was charged with managing all corporate, domestic and international purchasing for the company. As the company forged deeper into international markets such as Russia and China, he became responsible for the export of all equipment, chemicals and supplies. He also designed a computerized Russian translation system that enabled the company to complete export documents in one-tenth the time it took previously. Doug became a Rosetta board member on March 8, 2001.

Mr. Jeff Smith

Professional Geologist
Self-employed Consultant and Private Investor

Jeff's career in the oil and gas industry spans 31 years and has taken him from the Foothills of Alberta to the North Sea to West Africa. Jeff has been involved in significant discoveries throughout Alberta, including the discovery and development of the Otter Slave Point oil pool and Ogston Granite Wash oil pools. Most recently, Jeff held several executive positions at Northstar Energy Ltd., becoming Chief Operating Officer in 1995. While at Northstar, he was involved with major corporate acquisitions and was part of a team that increased production from 1,400 BOE/d to 40,000 BOE/d and capital expenditures from $15 million to over $275 million annually. From 1998 to current, Jeff has been a self-employed consultant, private investor, and a board member of Compton Petroleum Ltd., Providence Energy Trust (both public Canadian companies), and Segue Energy Corp. and Resolute Energy Corp. (both private Canadian companies). Jeff became a Rosetta board member on May 29, 2001.

Our Exploration Advisory Board

Rosetta's Exploration Advisory Board was expanded in 2001 – now comprising the intellectual capital of eight well known industry specialists that complement the technical expertise of Rosetta's internal team

Bill Ayrton, Ph.D

Professional Geologist, Ph.D Geology,
Oil & Gas Industry Lecturer
Founder & President, Ayrton Exploration Consulting Ltd. & Flame Resources Ltd.

Bill, a professional geologist, is a well known industry lecturer who has built an impressive array of businesses during his 38 years of exploration in Western Canada. He is founder and President of Ayrton Exploration Consulting Ltd. and Flame Resources Ltd., the former President and COO of Canadian Westgrowth Ltd., the founder and former President of Flame Oil & Gas Ltd. and Flame Energy Ltd., the former VP of Exploration at Petromark Minerals and Bluesky Oil & Gas, and was the former Chief Geologist for Amoco Canada. Bill has been involved with significant oil discoveries at Rainbow, Utikima, Harmattan and Taber South and conducted the study which led, in part, to the Fir gas field discovery. Bill also initiated and supervised the Lake Erie exploration program which led to the extension of the Clinton-Cataract gas field. During his time at Petromark, over 400,000 acres of land were acquired and 364 wells were drilled with a 75% success ratio. Highlights of Bill's career also include receiving the APEGGA Frank Spragins Technical Summit Award for technical expertise and professional contribution to the industry in 1996, being elected President of the Canadian Society of Petroleum Geologists in 1976, receiving the Society's Best Oral Presentation of a Paper Award in 1973, and in 1975, being Co-Chairman of the first joint CSPG-CSEG Convention in "Advances in Exploration Technology." He was the recipient of the Calgary Convention Centre North American Award in 1981, and was granted honorary membership to the CSPG in 1999 for the beneficial impact his activities have had on petroleum exploration in Canada. Bill joined Rosetta's Exploration Advisory Board in September 2001.

Mr. Nor M. Hannon Jr.

Professional Geological Engineer, Geophysicist, Geologist

One would be hard pressed to find an individual with more experience in the oil and gas industry. Much like we at Rosetta are crafting new exploration tools in our quest for Big Gas, Nor literally pioneered the use of hydrodynamics as an exploration tool in Canada some 41 years ago and went on to develop the lithologic resistance mapping method. He served as the President of Canadian Hydrodynamics for over three decades and during that time developed a comprehensive DST database that is used by 125 companies today. Nor was the first to recognize that widespread separated gas shows in the shallow Milk River formation in southern Alberta and Saskatchewan were all part of one giant natural gas accumulation contained in over 100 townships with total reserves of 10 TCF. The Milk River accumulation is a member of a unique collection of pools considered to be primarily hydrodynamic controlled traps. Nor is credited with helping in the discovery of over 1/2 TCF in the Peco, Chinook, Sedalia and Ferrybank fields. Nor joined Rosetta's Exploration Advisory Board in June 1999.

Mr. Curt Hartzler

Chairman, Rosetta Exploration Advisory Board
Professional Engineer
Former President of Birchill Resources Ltd.
Former President of Penn West Petroleum Ltd.
Founding President, Propak Systems Ltd.

Curt, a professional engineer, was formerly President of Birchill Resources Ltd. and Penn West Petroleum Ltd. During his nine years with Birchill, Curt grew the company's assets by 600% and generated a year-on-year rate of return in excess of 21%. As the founding President of Propak Systems Ltd., Curt and his partners built a well respected manufacturing company that has since constructed over 500 processing facilities for the energy industry. Curt developed extensive expertise in oil and gas production facilities, pipelines, drilling and completions, and specialized in engineering evaluations for Last, Kloepfer Ltd. (the predecessor company to Gilbert, Laustsen, Jung). Curt is a member of APEGGA and became the Chairman of Rosetta's Exploration Advisory Board in April 2001.

Mr. Ralph Hughes

Retired Professional Engineer
Past President and Vice Chairman, McDaniel & Associates Consultants Ltd.

Ralph is well known in the Canadian Oil & Gas business and spent almost 40 years with McDaniel's. From 1961 to 2000, Ralph evaluated most of the reservoirs in the Western Canadian Sedimentary Basin, from Virden Roselea west to Waterton, north to Amauligak and King Christian in the Canadian Arctic, as well as Ontario, the east coast and internationally. Ralph has prepared valuation reports that were utilized in approximately $5 billion worth of mergers, acquisitions, and public issues. He has appeared as an expert witness before the Alberta Court of Queens Bench, the 'Old Bailey', the ERCB, the Securities and Exchange Commission of the United States, the Ontario Securities Commission and many more such organizations. The appearances involved many civil suits, two fraud trials and many reserve estimates for securities prospectuses. It was Ralph that made the application to the SEC that first allowed Canadian companies to discuss probable reserves in a prospectus filed with that commission. Ralph's experience also includes being the past Chairman of APEGGA's consulting practice committee, the past Chairman of APEGGA's full experience committee of the Board of Examiners, and a retired member of APEGGA, SPE, SPEE, and CIM. Ralph joined Rosetta's Exploration Advisory Board in September 2001.

Mr. Ed McMaster

Professional Engineer
President, McMaster Consulting Services
Former Vice-President Operations, Shell Canada Limited

During his 28 year career at Shell Canada, Ed gained extensive operational and technical experience in the upstream resources business including oil and gas drilling, production, reservoir, and petrophysical engineering. Ed retired from Shell Canada in 1994 in the position of VP Operations with responsibility for Shell's producing operations. Since that time he has been the President of McMaster Consulting Services, a company providing oil and gas operations management and senior management training in High Performance Work Systems developed to foster Learning Organization tenets. Ed's construction project experience included the in-situ Peace River Expansion Project. Operational sour gas experience included that of drilling foreman, production superintendent, drilling manager, and senior executive positions at Shell. Industry committee memberships included the Advisory Committee to the ERCB on Public Safety and Sour Gas, Southern Alberta Institute of Technology – Petroleum Technology Advisory Board, Chairman of the Drilling Committee of the Canadian Petroleum Association, and the Upstream Petroleum Industry Task Force on Safety. Former directorships include Peace Pipe Lines Ltd., Rainbow Pipelines Ltd., Exchange Resources Ltd., and Addison Energy Inc. Ed joined Rosetta's Exploration Advisory Board in November 2001.

Mr. Hugh Reid

Professional Geologist
International Petroleum Consultant

Hugh is a world renowned exploration "drill-stem test" (DST) and hydrodynamics specialist. His training seminars in "DST Analysis for Geologists and Engineers" have been presented in over 10 countries to more than 150 companies over the past 10 years. Hugh has over two decades of experience in DST analysis and hydrodynamics, 10 years with Mobil Oil, and over 15 years as an independent DST analyst and technical manager for Delta P Test Corporation (specialized DSTs in tight gas sands). He has also authored several DST manuals and technical articles on formation damage and closed chamber DSTs in tight gas sands. Hugh was President of the Canadian Well Logging Society, and is a member of SPE, AAPG and APEGGA. Hugh joined Rosetta's Exploration Advisory Board in June of 1999.

Mr. Allan Shepard

Retired Professional Geologist
Former President and CEO, Canadian Wolverine Ltd.
Former Vice President Exploration, Amoco Canada
Former Vice President, Amoco Europe & West Africa

Allan is a retired professional geologist with over 40 years of experience focused on exploration both in Canada and internationally. He was formerly VP of Exploration at Amoco Canada, Chief Geologist at Amoco International in Chicago, VP of Amoco Europe & West Africa, and was President and CEO of Wolverine Exploration's (formerly American Quasar) Canadian subsidiary, Canadian Wolverine Ltd. His work at Amoco Canada resulted in the acquisition of extensive acreage positions both abroad and in Western and Eastern Canada's more prospective areas, the drilling of which resulted in finding and developing major oil and gas reserves. Allan joined Rosetta's Exploration Advisory Board in September 2001.

A. Easton Wren, Ph.D.

Professional Geophysicist
Founder & former President, Petrel Consultants

Easton is now an independent consultant, geophysicist and industry lecturer who is widely recognized as a leader in the application of new seismic techniques. His career has spanned over 30 years. Easton was the founder & former President of Petrel Consultants and he has held positions with Ray Geophysical Company in Libya, the United Nations in Uganda, Amoco Canada and PanCanadian Petroleum. Easton made a technical contribution to gas discoveries in Lake Erie, the oil play in the Granite Wash at Red Earth in northern Alberta, and was involved with the Cardium oil discoveries at Carrot Creek and Cyn Pem northwest of Pembina. He has lectured at U.S. and Canadian universities, has been an associate of the GSC, was elected President of the Canadian Society of Exploration Geophysicists for 1981, received the Society's Best Paper award in 1974, the Meritorious Service Award in 1977 and Honorary Membership in 1988. Easton has authored several papers on seismic processing and interpretation, is a past editor of the Journal of the CSEG and was General Chairman of the joint CSEG-CSPG Convention, Exploration Update, 1979, and was Distinguished Lecturer for the American Association of Petroleum Geologists (AAPG) in 1987. He is also an active member of SEG, CSEG. and APEGGA. Easton joined Rosetta's Exploration Advisory Board in October 2001.

Our Team of Finders

We were pleased to welcome Dr. Caush Xhufi, geophysicist, to our full time team of finders

Mr. Ross A. Clark

Managing Director
Geologist
Risk Manager

"Discovery is what really motivates me. There's nothing like the thrill of the 'Ah-ha' experience."

Ross has had several 'Ah-ha' experiences over the last 30 years in the oil and gas business. At Unocal Corporation, he participated in several major discoveries in the Norwegian North Sea totaling greater than 1 TCF of gas, the Gulf of Thailand (over 700 BCF of gas), and established the exploration framework for the Sinai Peninsula and Gulf of Suez, Egypt. He co-founded Search Energy and participated in its growth to a $50 million value by developing a team of 12 professionals and drilling 11 producing wells from 14 wells drilled. At Coparex Canada, he established a new core area at Thornbury and developed the North Cecil Charlie Lake and Kiskatinaw gas pools. He currently serves as the co-chairman of the AAPG Education Committee, was Associate Editor of the AAPG Bulletin (1998-2000), served as the AAPG Haas-Pratt Distinguished Lecturer for 1995-96, and was co-editor of the McGraw-Hill Yearbook of Science and Technology (1991-1993). Ross has also given more than 20 oral papers and published more than 30 professional papers.

Mr. Rod Morris

Geologist

"Successful exploration is not just about having good ideas. There are lots of explorationists with good ideas and their ideas are rarely unique. To make an idea into a Prospect and ultimately an asset requires a combination of intuition, creativity and experience, where patience, timing ... and a good deal of plain old luck, usually determine a company's success or failure to capitalize on the original idea. Large Prospects like Rosetta is pursuing may require as little as a few weeks to conceive, but take many months or years to actually piece together all aspects of the Prospect before it can be drilled. Rosetta's team has been able to put together several great Prospects... now comes the fun part."

Rod's career began in 1979 at Dome Petroleum where he was involved in a number of exploratory successes. He was a key member of the team in Dome's participation in what became Shell's Caroline discovery of over 2.2 TCF of gas. In 1987, Rod joined the Petrel Robertson group to advance his skills in hydrodynamics, reservoir evaluation and seismic. While at Petrel, he consulted to domestic and international oil companies. In 1994, he joined Mannville Oil & Gas and put the company into the Berkley-Mannville Carstairs Elkton discovery. After Mannville was sold to Gulf in 1995, Rod became an independent businessman. Rod's presentations at the SEG, CSEG and CSPG have consistently received Honourable Mention status. In 1993, he was co-author of a paper on a new seismic acquisition, processing, and interpretation technique that won Best Paper Award at the CSEG.

Mr. Paul V. Pedersen

Engineer

"Put simply, I'm working with a 'supergroup' of geoscientists on diverse, world-class gas reservoir projects ... I'm looking forward to the implementation of Rosetta's exploration plans in 2002."

Paul had a successful 20 year career with Ocelot Energy, where he held various progressive technical and engineering positions. As Ocelot's senior reservoir specialist for over 15 years, Paul's career has been rich in exposure to practical reservoir and production engineering aspects of the Canadian oil patch as well as selected international oil and natural gas opportunities in Australia, South America and Africa. Paul's disciplines of expertise include: reserves assessment and evaluations, pressure transient analysis, well production optimization, application of under balanced horizontal drilling, and oil and natural gas property acquisition and disposition. In several natural water drive oil reservoirs in Alberta and around the world, Paul was successful in optimizing the depletion and development of reservoirs resulting in reserves additions by up to 10 fold of original estimates.

Mr. Grant Pitcher

Geologist

"It's a pleasure to be able to push the boundaries of how people perceive exploration in new areas and basins - and to have these ideas tested by all disciplines."

In a career spanning some 45 years, Grant discovered the Strachan gas field with over 1.4 TCF of gas reserves, extended the Nevis D2/D3 reef field by 5 square miles and added 30% to the reserves, discovered the Nevis Cretaceous pool which produced over 500,000 barrels from the discovery well, extended the Bellshill Lake Basal Quartz oil field which led to the adding of over 95 million barrels, discovered the Birch Lake Glauconitic sand gas field which led to the development of over 2 TCF of gas reserves in the area, and discovered what became the Ponoka Viking-Colony sand fields with reserves of over 5 million barrels of oil. Grant strongly believes that there are still more than 6 TCF of reserves yet to be discovered in the basin on his ideas alone.

Caush Xhufi, Ph.D.

Exploration Geophysicist

"My experience in the interpretation of complex geological models and thrust belt zones is being applied on a daily basis in our exploration of the foothills."

Caush graduated with a B.Sc. in Geophysics from Tirana University, Albania, in 1973 and went on to earn his doctorate in geophysics in 1990. As an exploration geophysicist at the State Oil and Gas Institute in Albania, he successfully explored for and evaluated new prospects for over twenty years. It was there that Caush developed his expertise in evaluating shallow and deep prospects and a wide array of hydrocarbon traps including structural and stratigraphic plays in the Albanides Thrust Belt zone, and in the Adriatic Basin. While at Chevron Overseas Albania Ltd. (1991-1993), Caush completed numerous seismic and geological interpretations in Chevron's Adriatic 4 Offshore Block. Caush was responsible for the first exploration oil well at Hekal-5, in the Hekal-Karbunara field, Albania, with reserves of 200 million barrels of oil and was responsible for the Zharrez-1 well in the Patos - Marinze oil field, adding reserves of 35 million barrels of oil. Caush has significant expertise in regional exploration and evaluation working with multi-disciplinary teams in the areas of geology and geophysics. Caush is an active member of AAPG, EAGE and CSEG.

Our Risk / Reward Management Team

Rosetta's Risk / Reward Management Team continues to ensure we build upon our strategies to success

Mr. Glenn D. Gradeen

Managing Director
Risk Manager
Engineer

"I'm pleased to be a part of an organization that truly has such potential for TCF size discoveries. I'm confident of the ultimate success of the three tiered exploration strategy that we have developed, combining conventional exploration techniques with New Play Types and New Technologies–our Competitive Advantages. Layered on top of this are strong intellectual capital, our team of finders, and risk management techniques resulting in a learning organization where we will 'make our own luck.' These are the reasons I joined Jim in his vision and it is clear to me that we are on the right track. The hunt has only just begun..."

As the President and COO of Ocelot Energy, Glenn spent 12 years in a number of executive positions, built a strong technical team and helped successfully guide Ocelot through some difficult financial circumstances. Glenn oversaw the development, optimization and successful disposition of over $900 million of oil and gas properties during his tenure and is knowledgeable of oil and gas property market values in Western Canada. Glenn was also part of a team that successfully implemented 4 of the first 5 direct natural gas sales in Canada following the Federal/Provincial agreement on the deregulation of the natural gas industry in the mid 1980's. Glenn was formerly a Director of Ocelot and a Director of Alpine Oil Services Corporation.

Mr. Michael Heule

Risk Manager
Engineer

Mike's dedicated attention to detail keeps the corporate model running smoothly and ensures that ideas have sufficient resources and timing considerations to become a reality.

Mike was formerly the Vice President of Special Projects at Ocelot Energy. His areas of expertise are the commercial detail of business transactions in the oil and gas development industry from a legal, financial and project management context. At Ocelot, he was responsible for international project negotiation and management, marketing, finance/accounting, legal and general business development initiatives. Shareholder value was added through restructuring of long-term gas co-generation contracts, oil and gas hedging, and detailed project negotiations.

Mr. Greg M. Kondro

Risk Manager
Engineer

"Deep exploration is inherently risky but infinitely rewarding to work on because we're always looking for new and better ways to drill. With our Prospects, we have over two years of meticulous preparation that will lower risk and help to ensure a safe program that's efficient and cost effective."

Greg was formerly the Vice President of Production at Ocelot Energy. He has successfully managed and completed multi-million dollar and multi-faceted projects including drilling, facility development, infrastructure set-up and operations both domestically and internationally. He has a thorough knowledge of full cycle field development requirements including all technical and administrative aspects for all oil/gas and sweet/sour environments. Greg's expertise also includes operating in extremely remote areas. Greg is a registered professional engineer in Alberta, British Columbia and Saskatchewan.

Mr. Robyn H. Lore

Managing Director
Risk Manager

"To succeed in this business, economical control of the land is a must. Great science must be augmented with proper implementation. Proper implementation allows great science to multiply value. Land acquisition is key to that implementation."

Robyn has held numerous senior positions over his past 24 years in the industry including: President of Petroland Services (1986) Ltd., Director and Corporate Secretary of New Cache Petroleum Ltd., President and Director of Aldona Resources Ltd., and President of Granisko Resources Inc. While at Granisko, Robyn grew the company from $10,000 per month in total revenue to owning more than 100 kilometres of pipelines, 50 square miles of 3D seismic, 60,000 acres of land, a sour gas plant and effective control over the north part of the Rainbow Basin. Robyn built the technical team involved with this growth, and his 17 acquisitions and developments saw the company's assets grow in less than two years from $1 million to an appraised value of more than $200 million. This growth was financed by $60 million of new capital, including $50 million in high yield bonds. Granisko was caught when gas prices collapsed in 1994, rendering the company incapable of meeting its obligations on the high yield bonds.

Progress 2001

Core Technology and New Play Types
As a company Rosetta made significant progress in developing its new Core Technologies for future exploration purposes and also made progress towards proving a theory on a new Devonian Play Type.

Creating the Efficient Portfolio
Rosetta's key strategy is to create an efficient portfolio for drilling. This demands that we have enough Prospects, which must all be 100 BCF or larger (P50 potential prize), for statistical success. During 2001, we made some, but small, progress towards this objective.

Our definition of Prospect demands that we have 90% or more of the geological and geophysical work completed and that we must own a substantial amount of land on our P50 potential prize case.

Our Strategic Land Position and Geophysical Base Grew Substantially this Year
During 2001, we acquired 56,000 net acres of land and added 284 km of 2D seismic, 615 km^2 of 3D seismic and 4600 km^2 of aeromagnetic surveys. This constituted an investment of $3.7 million.

Our Drillable Prospects Grew from 7 to 8
During the year we added one new Prospect - Cleopatra. This Prospect could be as large as 800 BCF (P10 potential prize) and to date in 2002 sees a culmination of 2 man years of geological and geophysical work and 18 months of strategic land acquisition.

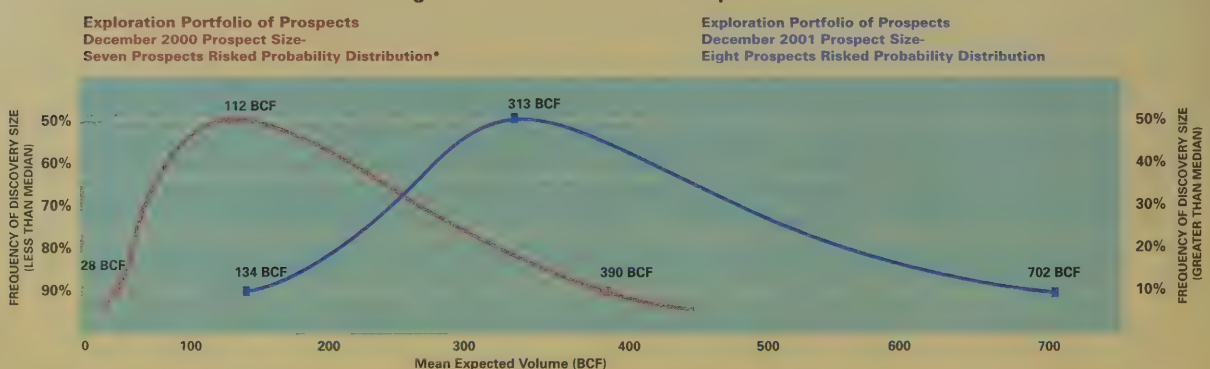
We also grouped 3 smaller Prospects into 1 larger, lower risk, Prospect. The results were our Prospects grew from 7 to 8 and our Prospect endowment (risked P50 potential prize) grew from 112 BCF to 313 BCF.

The challenge of a prospecting company is to eliminate those ideas that don't work with the least amount of money expenditure. Therefore, the good news, and less than good news, is that this year we eliminated 8 Leads and drilled 1 unsuccessful test well. This reduced our Lead endowment by 2,394 BCF (unrisked P50 potential prize).

Modifications to Our Original Business Plan
Modifications to our original business plan will include some shallower prospecting for cash flow to offset the long time frames of Devonian prospecting, more traditional partnering arrangements with Canadian partners considering discrete areas of exclusion and Prospects, and, Rosetta potentially participating in the program. Our goal was to attract one US drilling partner to drill all of our ideas. They would be required to exclude themselves from our 70,000 square mile Area of Interest. Many companies liked our plans but found a 70,000 square mile exclusion too prohibitive. In June 2001, we did reach a letter of intent with a US drilling partner but our Board considered the relationship too constraining and we terminated the agreement.

Drilling to Commence in 2002
We're proceeding with best efforts to drill 3 of our Prospects in 2002: Luxor Amun Swan Hills; Cleopatra Swan Hills and our Mississippian / Cretaceous Program. For the risked prize potential of these Prospects see figures 5 and 6 on page 16. The Environmental Review Process and licensing of our Luxor Amun Swan Hills Prospect has been completed and, in March, we commenced presentations to potential industry partners.

Growing our Current Portfolio of Prospects ...



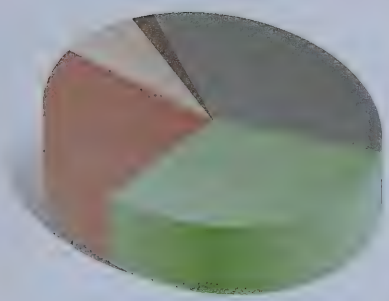
* Please note that in the 2000 annual report we displayed the sum of unrisked P10/P50/P90 potential reserves estimates for each Prospect.

... is the result of investments ...

1999 Capital Expenditures

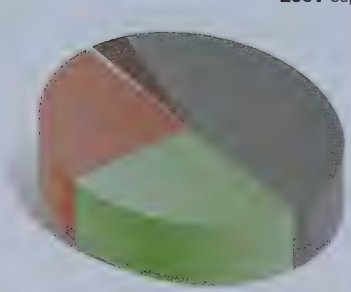
Land	39%
Drilling/ Completion	24%
G&G	22%
Equipment/ Facilities	3%
Other	6%
Total Expenditures	$3,370,689

2000 Capital Expenditures



Land	31%
Drilling/ Completion	24%
G&G	37%
Equipment/ Facilities	7%
Other	1%
Total Expenditures	$7,298,189

2001 Capital Expenditures

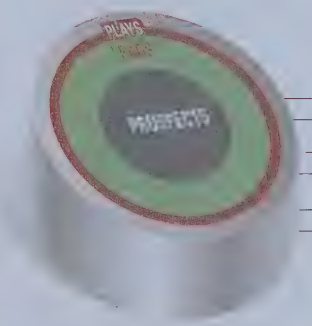


Land	45%
Drilling/ Completion	26%
G&G	24%
Equipment/ Facilities	1%
Other	4%
Total Expenditures	$5,466,823

... that have moved Leads to Prospects

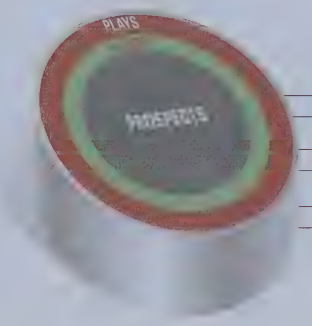
1999
Gross Unrisked Volume in BCF
Prospect-Lead-Play Status

Unrisked Expectation				Total
P90	5	50	356	411
P50	50	500	3,564	4,114
P10	100	1,000	7,128	8,228



2000
Gross Unrisked Volume in BCF
Prospect-Lead-Play Status

Unrisked Expectation				Total
P90	92	431	70	593
P50	368	2,790	700	3,858
P10	1,224	5,688	1,400	8,312



2001- 8 Prospects
Gross Unrisked Volume in BCF
Prospect-Lead-Play Status

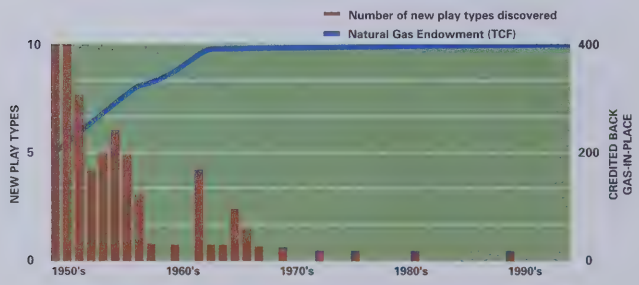
Unrisked Expectation				Total
P90	422	85	702	1,209
P50	1,009	771	2,421	4,201
P10	2,291	1,556	4,971	8,818

New Core Technology to Drive our New Play Types and our Conventional Exploration Program in the Future

From the outset, the Rosetta mandate has been to pursue Prospects greater than 100 BCF in size in a basin where there have been only 6 such discoveries by the entire industry over the past 10 years. This represents an aggressive bar to jump over.

Strategically we recognized from the outset that this wouldn't be possible unless we could develop an insight into geology which was non-conventional ("New Play Types") and unless we could develop some new technology ("Core Technology") which would enable us to see deep geology more clearly.

A review of the 2001 Gas Potential Study from the Canadian Gas Potential Committee shows that the industry has developed many New Play Types over the past 50 years. The majority of the New Play Types were discovered in the 1950's (41) and in the 1960's (12). These New Play Types increased the natural gas endowment in the basin by 170 TCF.



As the graph shows, the number of New Play Types has dwindled from a high of 5 or more per year during the peak exploration years in the basin to only 4 in the past 30 years. Secondly, the size of the discovered reserves from those 4 has been relatively miniscule.

In 1997, the Canadian Gas Potential Study estimated 25 TCF of gas yet to be discovered from New Play Types. The updated report in 2001 declined to make a New Play Type estimate pending further information. Management of Rosetta firmly believes there are significant reserves yet to be found - with sizeable reserves yet to spring from New Play Types. In this regard, we point to two developments within the past 24 months: the Ladyfern discovery (approximating 1 TCF of gas) not reflected in the Gas Potential Study, and the latest follow-on discoveries to the O'Chiese Banff discovery. It's been said that the Banff could offer up 1 TCF of potential.

At Rosetta, we've been doing the spade work on a New Devonian interpretation during the past 24 months. In this regard we've invested $957,000, including $821,000 deepening a well for an idea we called 'Tomahawk'. Unfortunately, our first foray was unsuccessful; however, armed with the learning from this well, we've continued to compile the learnings that could unlock the secrets to this New Play Type. If the New Play Type bears fruit, it will be measured in multiple Prospects and multiple TCF and therefore, we remain dedicated to pursuing it.

Recently we've added a Rosetta Satellite to pursue another New Play Type. Rosetta Satellites consist of an independent geologist who has worked a number of years on developing a new large geological idea and wants the support of Rosetta's multi-disciplined team. In the case at hand, this gentleman has spent 4 years 'prospecting' his new idea. The Rosetta team likes his work and concepts and has taken on his project to advance it through the seismic and land acquisition phase. Should his New Play Type work, we estimate it could result in 6 Prospects and upwards of 4 TCF of prize potential.

Rosetta believes that the key to unlocking a New Play Type with reasonable finding costs is dependent upon using New Technologies that enable us to see geology more clearly. Rosetta has dedicated the past 24 months and $1,000,000 to experimenting with and supporting New Technologies. These technologies can be broken down into two categories.

The first category consists of global prospecting technologies that enable us to survey large areas quickly without the use of seismic. We have experimented with three such technologies and have continued interest in one such technology as a scoping tool.

The second category of technologies has become Core Technology to Rosetta and is used on a daily basis. The Core Technology centres on seismic. During the past 24 months, Rosetta has questioned all of the fundamental seismic assumptions widely deployed within the oil and gas industry today. This has led us through a systematic and critical review of field acquisition parameters, processing methodologies and interpretation techniques. The results have been enlightening.

Rosetta has constructed its own seismic models and methodologies which will in the future lie at the very heart of everything we do. It's our belief that as we gain experience with these, over time, we'll be able to test ideas at less expense and increase our chance of success–hopefully dramatically. It's our hope to deploy these methodologies in pursuit of our New Play Types. Currently we are deploying some of these technologies within the pursuit of Conventional Prospects, so let's look at our progress in this area.

Progress on Conventional Prospects and Portfolio

From inception, we've striven towards achieving 12 Prospects for drilling because our analysis of the basin supports the need for 12 Prospects to have a statistical chance of success.

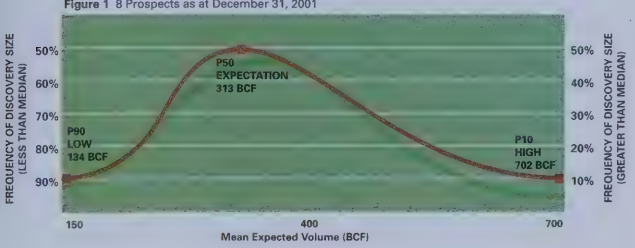
In a review of all Devonian exploration wells drilled within our Area of Interest during the past 10 years, we found that the AEUB assigned a 32% success rate. This high of a success rate would not have supported the need for 12 wells; however, we didn't accept the AEUB assigned success rate.

Rosetta defines "success" to mean a well that has returned all of its capital and at least a 21% return of capital thereon. We applied this definition and completed a reserves, productivity and economic analysis. From this we ascertained that at a $2.50/mcf flat gas price, the actual Devonian exploration success rate within our Area of Interest has been 14%. This 14% success rate would necessitate the drilling of 15 wells to achieve a 90% chance of some success.

This definition of "success" is sensitive to gas prices. At $3.00/mcf gas prices, the industry Devonian success rate within our Area of Interest rises to 24%. This higher gas price would reduce to 8 the number of wells statistically required to have a successful discovery. Rosetta has settled on 12 wells, which would give a 90% chance of having some success at a reasonably conservative gas price.

Today we have 8 Prospects which could be drilled. The following table sets forth the distribution curve of what potential is possible should we have a successful discovery. Note that all figures on the following distribution curves are risked.

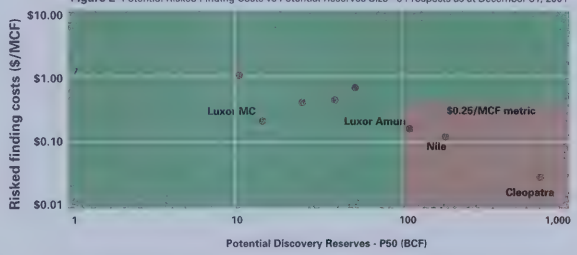
Figure 1 8 Prospects as at December 31, 2001



Please familiarize yourself with our definitions section of this document. What the above figure shows is that if we had a discovery, 1 time out of 10 that discovery will be at least 702 BCF. Five times out of 10, the discovery will be at least 313 BCF and 9 times out of 10, it will be at least 134 BCF. The distribution curve is a statistical analysis to show a gross discovery range and does not reflect our working interest after drilling with partners.

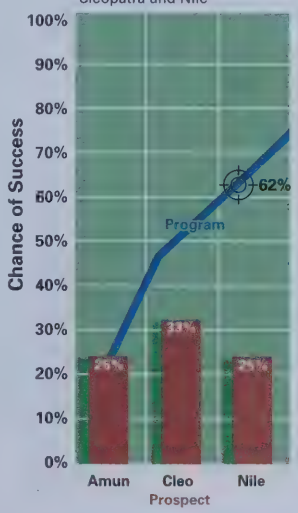
It's fair to say that we have a portfolio of Prospects; however, given our 'metrics of success' we do not have an efficient portfolio. Our metrics include finding cost targets and reserves per share targets (i.e., net asset growth targets), which targets may not be met by simply drilling our existing portfolio. An efficient portfolio would require that each of our Prospects be large. We target 100 BCF projects as being large. The following figure shows the size distribution of our Prospects and their theoretical finding costs. The bottom right quadrant of the graph is our Target Prospect Area.

Figure 2 Potential Risked Finding Costs vs Potential Reserves Size - 8 Prospects as at December 31, 2001



To make statistics work for us and to achieve our 'metrics of success' from our existing portfolio of Conventional Prospects, we continually strive to increase our chance of success. Using $2.50 flat gas prices, that means increasing our chance of success above the industry average of 14% to be better than our competition. One of our internal Risk Management principles is that an idea must have a team assigned chance of success of at least 20% to be a Prospect. The adjacent figure shows our chance of having some success if we were to simply drill our three largest Prospects given our internally assigned probability of success for each Prospect. Note that the bars represent the *individual* Prospect chance of success and the coloured line above the bars represents the *program's* chance of success.

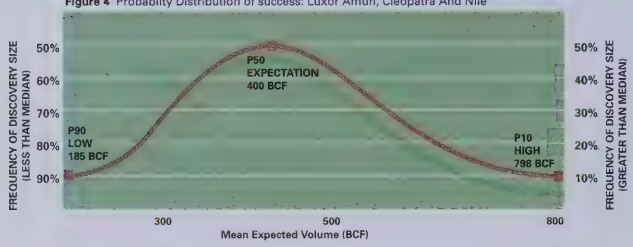
Figure 3
Program chance of success for the drilling of Luxor Amun, Cleopatra and Nile



You'll note that our chance of having some success with the three well program, having considered the individual chances of success for each of our three largest Prospects is 62%.

If we were to have a discovery drilling our three largest Prospects, the distribution curve of that success is as shown in Figure 4:

Figure 4 Probabilty Distribution of success: Luxor Amun, Cleopatra And Nile



You'll note that statistically the cumulative risked potential reserves size of our 3 three largest Prospects is greater than the cumulative risked potential reserves size of our entire 8 Prospect inventory. This is because our 8 Prospects include several 'smaller' targets (less than 100 BCF). Statistically, the drilling of 8 independent Prospects would serve to increase our chance of success, but given the mix of larger and smaller Prospects, the range of 80% confidence (P90 to P10) of potential reserves size is smaller. This is one of the "ineffi-ciencies"of our Prospect portfolio at the present time.

Although the distribution curve is attractive to us, the ability to get onto it is less so, that being only a 62% chance. This means we still have a 38% chance of having no success (i.e., for the three well program, drilling all dry holes). Because of this, the Risk Management team decided to group several of our smaller and lower risk Prospects into a Mississippian and Cretaceous program ('MC Program') to increase our chances of success and to maximize shareholder value from shallower ideas that developed out of Devonian prospecting. Risk Management has, for the moment, substituted the MC Program for our Nile Prospect (see Nile caption). This 2002 drilling program results in an increased chance of getting some success with the potential as shown in figures 5 and 6.

Nile

Our Nile Prospect is our only Foothills Prospect larger than 100 BCF. The Canadian companies we're in discussions with do not participate in Foothills projects. Management's objective is to get Nile drilled, but it will not likely be drilled by the parties drilling our 2002 program—and will require us finding a partner who is knowledgeable in Structural projects.

Figure 6 Probability Distribution of success for the 3 well program: Luxor Amun, Cleopatra and MC Program.

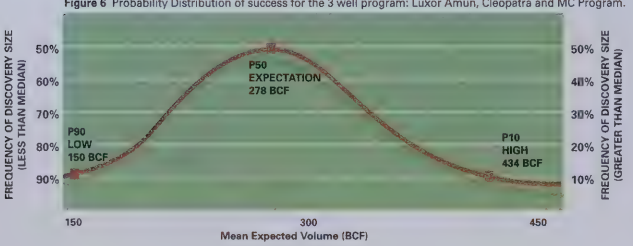
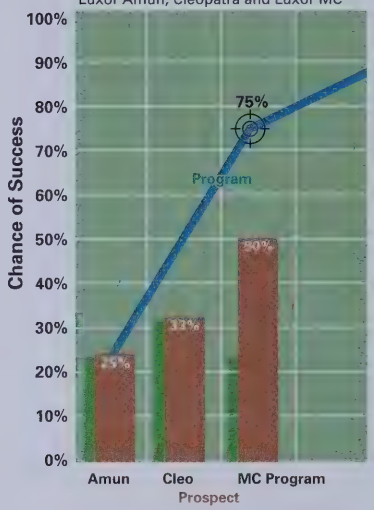


Figure 5
Program chance of success:
Luxor Amun, Cleopatra and Luxor MC



Note: Luxor MC is comprised of three "shallower" wells - the combined COS of these three wells is greater than 50% - but has been reduced to 50% to better align the potential size of prize of this program with the deeper well program.

You'll note that this approach has increased our chances of having some success on the drilling program from 62% to 75% (because of the higher probability of success of the MC Program) and has reduced our potential outcome by, in Risk Management's opinion, an acceptable amount given our increased chance of having some success.

The challenge the Risk Management team has is that our statistical chance of having some success is still only 75%, which is well below our minimum target of at least 90%. Figures 7, 8, and 9 on page 17 demonstrate this principle. Figure 7 is a repeat of Figure 5 showing our current chance of having some success with our 2002 program. Figure 8 shows increments of increasing the chance of success on each Prospect by 10% and the resulting impact on the program as demonstrated by the blue lines. You'll note that this shows we would need to increase our chance of success by 20% on each Prospect to get to a cumulative target for the three Prospects of greater than 90%. Figure 9 shows that having a fourth large Prospect with a 25% chance of success would get us to an 82% chance of success on the drilling program. Therefore, during the drilling of the existing program, we'll continue to strive to attract a partner to drill our Structural Nile Prospect (see Nile caption) and/or move one of our Leads (see pages 20 and 21 for a discussion of Leads) forward as a Prospect and into the drilling program. Figure 9 also shows the impact of adding more Prospects to move towards an acceptable statistical chance of having some success, and that remains our mandate.

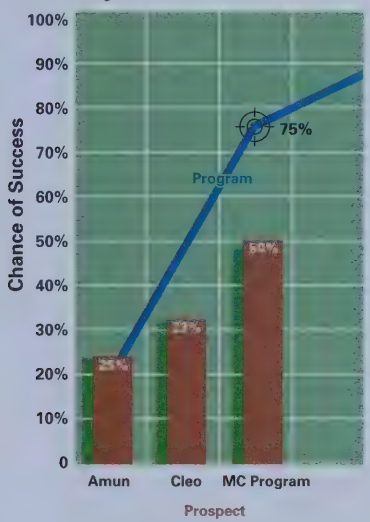
It's our belief that advancing our Core Technology is a second way to move up the increments of chance of success and this, too, remains our mandate.

If our Core Technology can increase our chance of success by 10% on each Prospect and we get a fourth Prospect drilled, then we have 90% chance of having some success. Similarly, if we get two more large Prospects drilled, then even without any advance in Core Technology, we have a greater than 90% chance of having some success.

The Burden of Risk

Investing in Core Technology shifts the burden of risk from our drilling partner to Rosetta as the prospecting partner. This is because our Core Technology will cause us to drop Prospects, Leads and Plays earlier without the need for drilling. Similarly, investing in an efficient portfolio increases the chances of success for our partner(s). This is consistent with our beliefs that to attract a good partner, we've got to be a good partner.

Figure 7
Program Chance of Success



Drilling Plans

During 2002, the management team and Board have decided to proceed to use our best efforts to move forward and drill the program reviewed for you in figures 5 and 6, that is, to have Luxor Amun Swan Hills, Cleopatra Swan Hills and the MC Program drilled. In addition to this, we'll seek a partner to drill our Nile Prospect, attempt to move 2 Leads that we own land on to Prospect status, monetize our 4 small Prospects, improve our Core Technology to increase our chance of success in the future with each Prospect, and progress two New Play Types.

Figure 8
Program chance of success and effect of competitive advantage

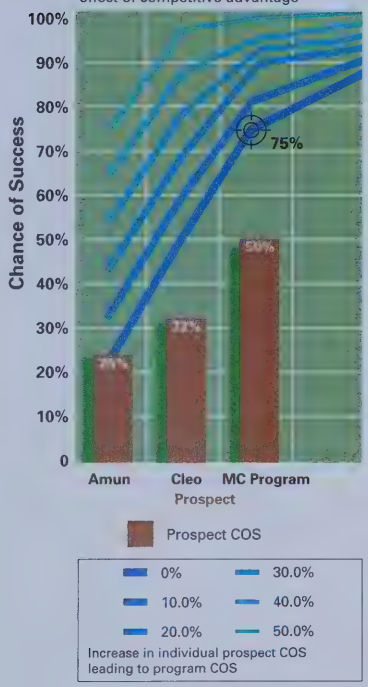
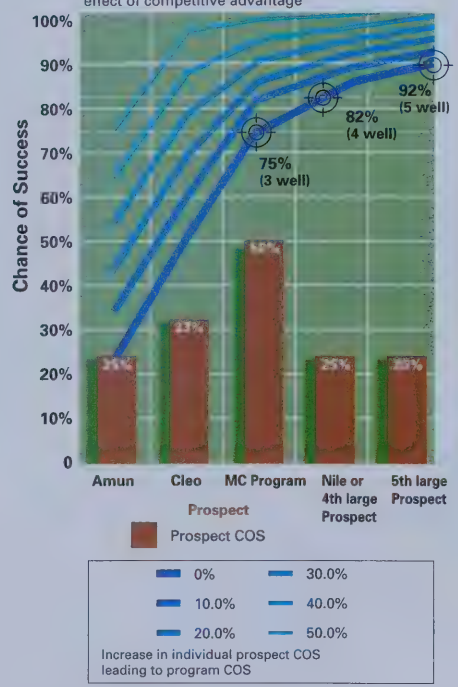
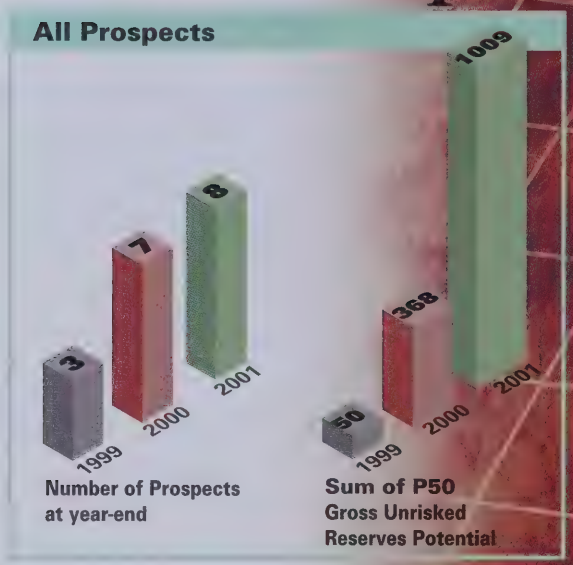


Figure 9
Program chance of success and effect of competitive advantage



Our Prospects



Nile Structural Prospect $1,290,000*

Total Land Acres Since Inception	Gross 22,357
	Net 20,720
Geophysics Since Inception	2D (km) 118

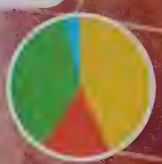
Percentage of Investment

Giza Leduc Prospect $1,524,000

Total Land Acres Since Inception	Gross 2,560
	Net 1,024
Geophysics Since Inception	2D (km) 273

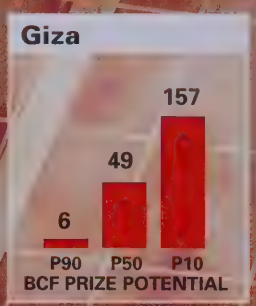
Aswan Structural Prospect $260,000

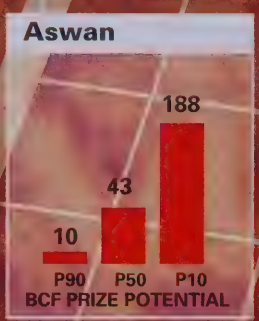
Total Land Acres Since Inception	Gross 2,560
	Net 1,280
Geophysics Since Inception	2D (km) 68

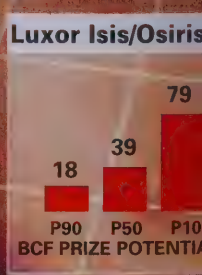


Land Geology Geophysics Drilling and Operations

Percentage of investment







LUXOR ISIS/OSI

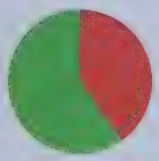
*Total investment values for all Prospects include Capital Expenditures plus allocated G&A from July 1999 to December 31, 2001

Luxor Area

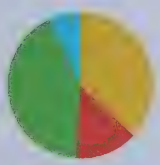
Total Land Acres Since Inception	Gross 27,505 / Net 12,719
Geophysics Since Inception	2D (km) 137 / 3D (km^2) 207

Luxor Isis/Osiris (Development Wells) Prospects **$73,000***

Percentage of Investment



Luxor Amun Swan Hills Prospect **$1,587,000**

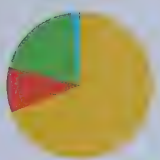


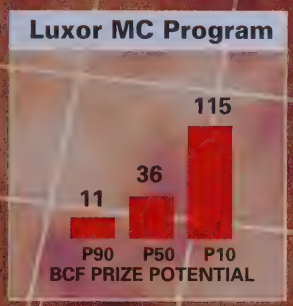
Luxor MC Program Mississippian Cretaceous Prospect **$362,000**

New

Cleopatra Swan Hills Prospect **$2,838,000**

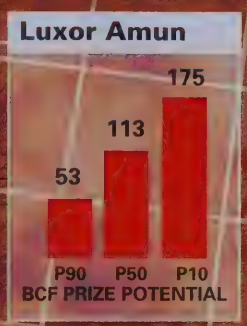
Total Land Acres Since Inception	Gross 20,036 / Net 18,244
Geophysics Since Inception	2D (km) 278





LUXOR MC PROGRAM

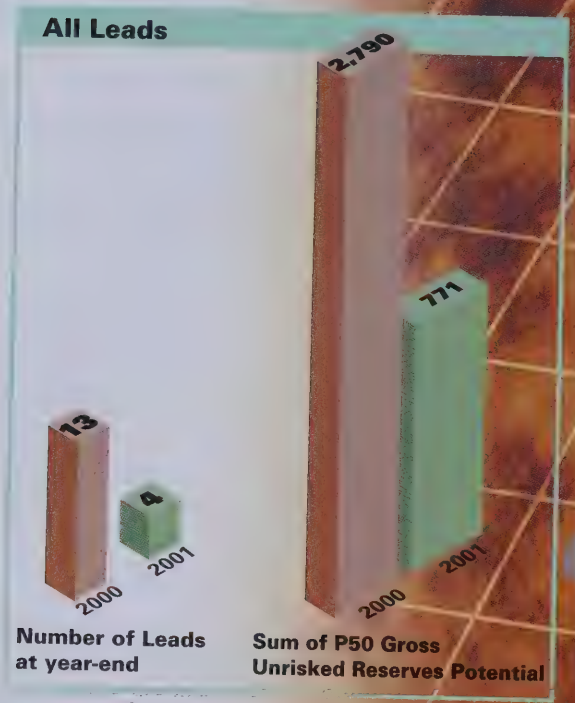
CLEOPATRA



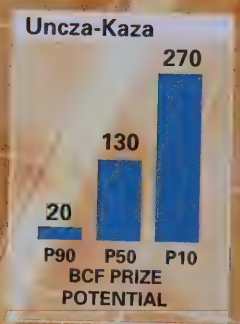
LUXOR AMUN

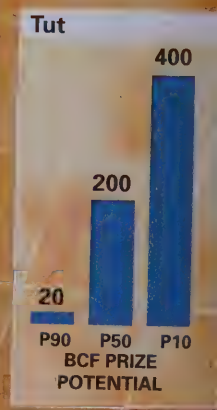
5th Meridian

Our Leads



Only the best **Leads** become **Prospects**





NILE

UNCZA-KAZA LEAD

GIZA

ASWAN

CAMEL LEAD

TUT LEAD

LUXOR
ISIS/OSIRIS

Land Geology Geophysics Drilling and Operations

Percentage of investment

*Total investment values for all Leads include Capital Expenditures plus allocated G&A from July 1999 to December 31, 2001

Uncza Kaza Swan Hills Lead $141,000*

Geophysics Since Inception	2D (km) 53

Work Completed (%)	
Geology and Geophysics	70
Land	0

Camel Structural Lead $278,000

Total Land Acres Since Inception	Gross 21,000
	Net 21,000
Geophysics Since Inception	2D (km) 30

Work Completed (%)	
Geology and Geophysics	70
Land	80

Tut Mississippian Lead $910,000

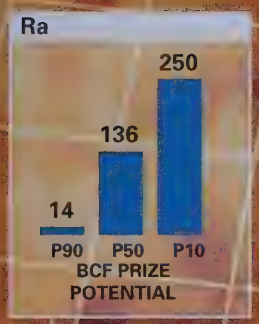
Total Land Acres Since Inception	Gross 25,600
	Net 25,600
Geophysics Since Inception	2D (km) 196

Work Completed (%)	
Geology and Geophysics	40
Land	70

Ra Leduc Lead $206,000

Total Land Acres Since Inception	Gross 1,600
	Net 1,600

Work Completed (%)	
Geology and Geophysics	50
Land	90



RA LEAD

LUXOR MC
PROGRAM

LUXOR
AMUN

CLEOPATRA

5th Meridian

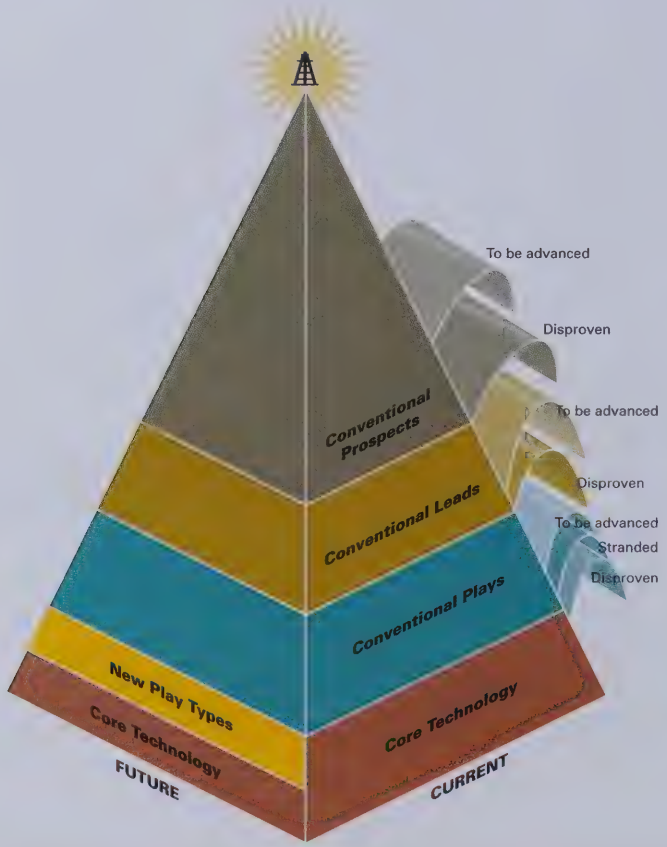
Analysis of Total Expenditures

At Rosetta, we are endeavouring to advance a group of Plays and Leads into Prospects using conventional industry methods (seismic, land, geological expertise) and by investing in a series of Competitive Advantages (Core Technology and New Play Types). This has resulted to date in the building of 8 drillable Prospects.

This same process has also resulted in the extinction of 8 Leads, 1 Play, 1 unsuccessful drill to test a competitive advantage and 1 unsuccessful re-completion.

'Stranded' projects means that some land assets become stranded because they're no longer supporting a current project. Stranded projects also occur when we bid at land sales on acreage we consider to be of 'A' and 'B' quality and are only successful on our bid for the 'B' acreage. Management considers the 'B' acreage stranded until the 'A' land purchaser defines activity on their lands.

The following graph focuses on the allocation of Rosetta's total expenditures (capital expenditures plus allocated G&A) across Conventional Plays, Leads and Prospects, Core Technology and New Play Types. It shows investments that have become 'stranded', 'disproven' based upon new information and/or drilling results, 'to be advanced' pending further work, and finally, investments associated with our targeted 2002 drilling program, what we refer to as being "active".



Total Expenditures

Total Expenditures include Capital Expenditures and project allocated G&A between July 1999 and December 2001

Conventional Prospects	
$5,600,000	Active
$1,900,000	To be advanced
$2,000,000	Disproven
$9,500,000	
Conventional Leads	
$ 1,100,000	Active
$ 400,000	To be advanced
$ 1,000,000	Disproven
$ 2,500,000	
Conventional Plays	
$ 1,500,000	To be advanced
$ 1,200,000	Stranded
$ 100,000	Disproven
$ 2,800,000	
Core Technology	
$ 1,000,000	
New Play Types	
$ 1,000,000	
Operations, Acquisitions, Dispositions (net)	
$ 500,000	
General & Administrative -unallocated	
$ 2,500,000	
Total as at December 31, 2001	$19,800,000
Plus Working Capital as at December 31, 2001	$12,000,000
Capital Employed as at December 31, 2001	$31,800,000

Core Technology - a principal building block

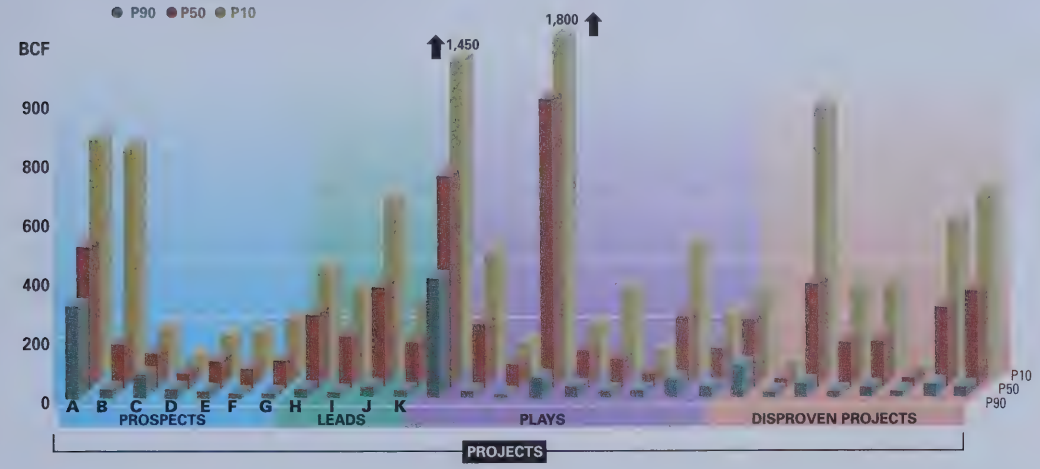
Currently being utilized in the pursuit of Conventional Prospects and work continues to utilize Core Technology to unlock New Play Types in the **future**.

(See page 14 for more on our Competitive Advantages, and see page 30 for the historical impact of New Play Types.)

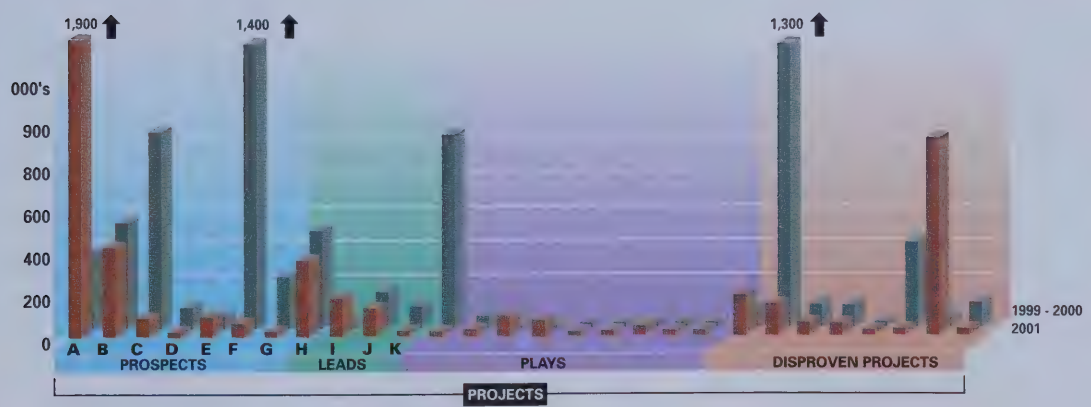
Metrics of Success

We continue our analysis of expenditures by comparing potential prize sizes for each of our projects against their respective capital expenditures. Projects which have become disproven are denoted in peach.

Sum of Potential Unrisked Gross Reserves
On our 28 ideas
● P90 ● P50 ● P10



Exploration Capital Expenditures (Does not include G&A)
On our 28 ideas
$ 1999-2000 Costs $ 2001 Costs



A Cleopatra
B Nile
C Luxor Amun
D Luxor Osiris and Isis
E Luxor MC
F Giza
G Aswan
H Tut
I Ra
J Camel
K Uncza-Kaza

Our Target Metrics:

1. **An annual 21% after tax rate of return on capital employed**
2. **A finding cost of under $0.25/mcf**
3. **Net reserves per share of 10 mcf and an aggregate enterprise value of $300 million**
4. **Net reserves per employee of 15 BCF**

2001 Metrics Review

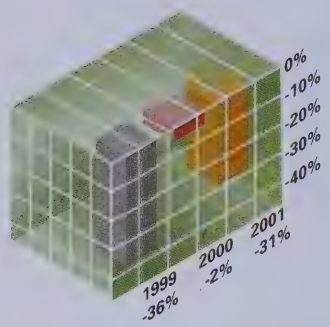
Rosetta's metrics are designed to report on our business plan of exploration and monetization. Return on capital and finding costs are critical measures. The real test begins when we start drilling.

In evaluating its working interest reserves at its Strachan 2-22 well at year-end 2001, Rosetta moved to a decline analysis from a volumetric evaluation basis as the well has been onstream for over two years. This combined with production resulted in reserves at year-end of 1.2 BCF versus 2.6 BCF at year-end 2000. See the MD&A section of this report for a discussion of the resulting reserves writedown. This reduction in reserves dragged down performance against our metrics of Net Asset Value, Reserves, and Value of a $10,000 Investment. It also lowers our rate of return in 2001 versus 2000.

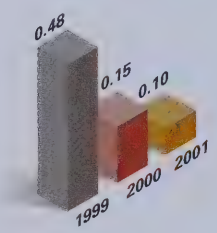
With no successful drilling in 2001, our metrics continue to chart negative territory.

A $10,000 investment in Rosetta as of July 1999 has become $6,900. This is a net asset value measurement and assumes the investment was made when new management invested their funds in July 1999 at $1.25 per share. This calculation is done on a pre-tax liquidation basis and includes only land, 50% of geophysics, proven reserves and working capital. A large portion of net asset value is working capital, which declines with investment in building Prospects. In this regard, it's worth noting that the decline in a $10,000 investment made in Rosetta 30 months ago does not reflect the potential of our Prospects or Leads (see pages 18-21).

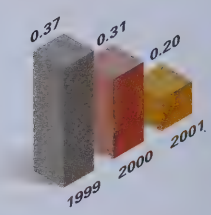
Corporate Return
on Capital employed



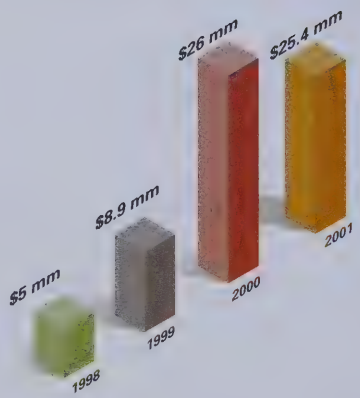
Reserves per share
(mcfe)



Reserves per Employee

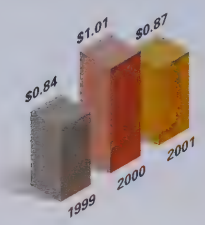


Net Asset Value



Value of $10,000 Investment
in July 1999 at $1.25 per share

Net Asset Value per share

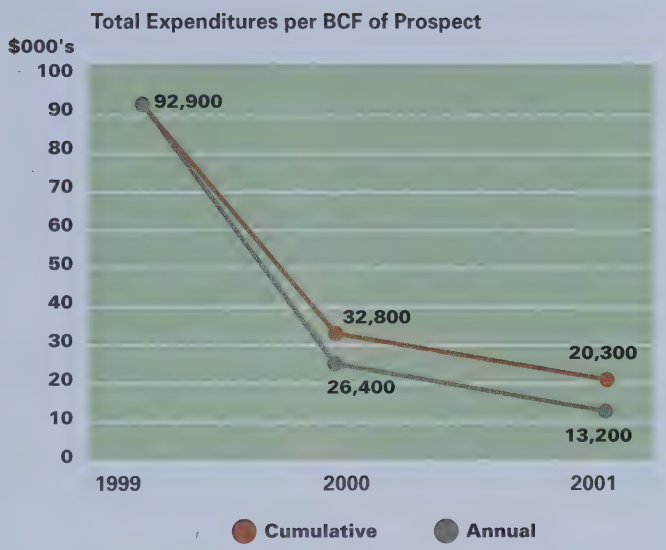


New Metric of Success

Prospect Generation Cost

Being a prospecting company, we're incorporating a new metric of success this year to track the Prospect Generation cost of finding a billion cubic feet of gas for our known Prospects. It sums land, seismic, geology, competitive advantage and total corporate G&A from July 1999 and is divided by gross P50 prize potential generated since July 1999.

It shows that as a company we've systematically lowered this cost. The design of this metric is to internally measure how effectively we're investing our funds.



Financial and Operating Highlights

Financial ($, except shares)	**2001**	2000
Revenue, net of royalties	**1,241,642**	1,661,366
Cash flow used in operations	**(1,591,740)**	(583,453)
Cash flow per share	**(0.06)**	(0.03)
Loss	**(7,567,603)**	(385,289)
Loss per share	**(0.29)**	(0.02)
Capital expenditures, gross	**6,072,482**	7,298,189
Shares Outstanding:		
Weighted average	**25,777,141**	19,948,085
Year end – basic	**29,299,675**	25,676,475
Year end diluted	**31,458,475**	27,667,275
Operating		
Total Proven Reserves (MCFE)	**1.6**	3.0
Proven + 1/2 Probable (MCFE)	**2.8**	3.9

Definitions

Throughout this annual report you've come across the terms 'Play', 'Lead', and 'Prospect' time and again.

More than technical jargon, these terms represent the heart of Rosetta, because we're seeking to develop an efficient portfolio of Prospects, and we have developed our own, very specific definitions to these words.

A **Play** represents the early stages of an exploration concept that is being actively pursued and which could result in a drillable Prospect. A Play consists of a family of potential Prospects with similar geologic characteristics. We devote a great deal of intellectual capital here, but nominal dollar capital at this point.

Plays graduate into...

Leads, meaning a potential Prospect that requires additional G&G work to evaluate its viability. When our team agrees that the Lead is firming up, we begin spending significant geo-technical capital and develop a land strategy for it. At this point, we'll likely acquire sufficient land to secure the Lead should it develop into a drillable Prospect.

Leads graduate into...

Prospects, meaning the location is defined, 90% of the technical work is complete, significant land is owned and the location is ready to be drilled.

Abbreviations:

bcf billion cubic feet
bcfe billion cubic feet equivalent
boe barrel of oil equivalent
mcf thousand cubic feet
mcfe thousand cubic feet equivalent
tcf trillion cubic feet
AAPG American Association of Petroleum Geologists
AEUB Alberta Energy & Utilities Board
APEGGA Association of Professional Engineers, Geologists and Geophysicists of Alberta
CIM Canadian Institute of Mining
CSEG Canadian Society of Exploration Geophysicists
CSPG Canadian Society of Petroleum Geologists
EAGE European Association of Geoscientists & Engineers
ERCB Energy Resources Conservation Board
PESGB Professional Exploration Society of Great Britain
SEG Society of Exploration Geophysicists
SPE Society of Petroleum Engineers

Equivalents:

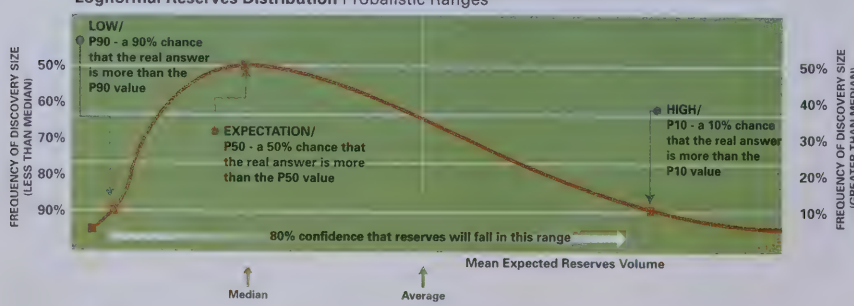
1 barrel of oil = 6 mcf of gas

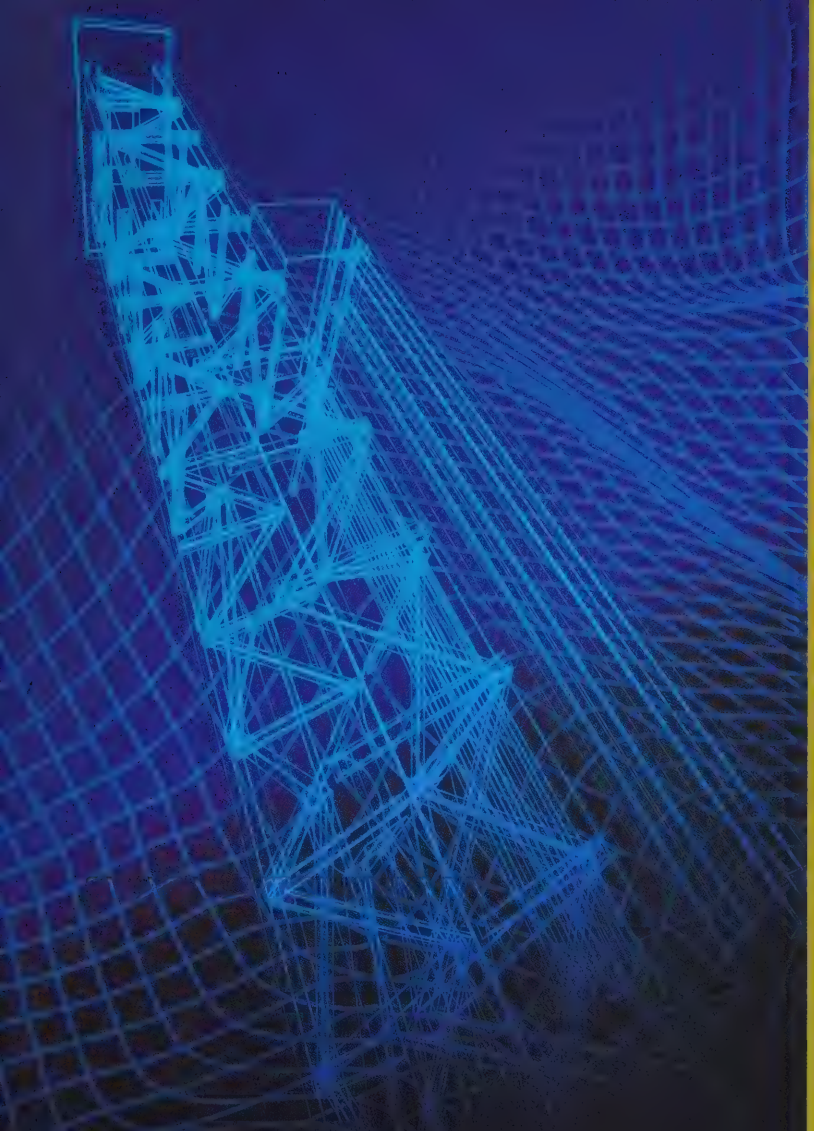
COS - *(Chance of Success)*
Our estimate of the chance of a successful drilling result for a particular Prospect or the combined chance of success for a drilling program. It is based on our geoscientists' determination of such things as hydrocarbon charge, reservoir rock, trap, etc. For each Prospect, we estimate the COS as being the liklihood or chance of a discovery. The potential reserves range if we have a discovery considers both deterministic and probabilistic evaluations.

Deterministic Reserve Estimates – When calculating reserves ranges for a Prospect, our geoscientists use a deterministic approach estimating ranges for parameters such as areal extent, net pay, porosity, hydrocarbon saturation, etc. This results in a range of "Low", Expectation" and "High" for potential reserves for a Prospect. We then balance this with a probabilistic review of potential reserves.

P-value - *Estimating with Probabilistic Ranges*
The p-value for a Prospect, Lead or Play, as used in this document, is the statistical likelihood of a successful discovery being greater than or equal to the value given. In our parlance we often quote a 'P-50' statistical significance level. This means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 50% of the time. Alternatively, a 'P-10' statistical significance level means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 10% of the time, and for a 'P-90' statistical significance level, we would expect that reserves value, or greater, 90% of the time.
Stated differently, for a particular Prospect, we would expect a successful drilling result to discover the P-50 reserves value, or more, 5 times out of ten and that we have an 80% confidence level of a successful result discovering between the P-10 and the P-90 reserves values.
These ranges are particularly important for a portfolio program of independent Prospects such as Rosetta's. Given a sufficiently large program, it is possible to estimate the chance of SOME success over the course of the program and what the range of expected outcomes might be.

Lognormal Reserves Distribution Probalistic Ranges





Our Business Plan Principles

Definition

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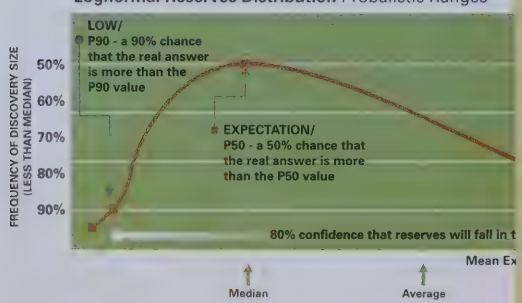

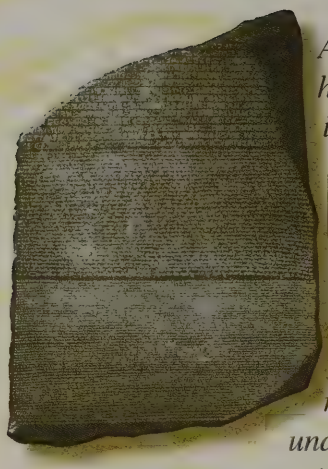

A little over two hundred years ago, in North Africa, the discovery of a massive black basalt stone by French troops set forth a chain of events that would not only create new understanding, but re-write human history.

Named after the small Egyptian village where it was unearthed, the inscriptions found on the Rosetta Stone led to the deciphering of Egyptian hieroglyphics, which until then had remained a mystery for more than one thousand years. The key to understanding an ancient civilization had been unlocked. And with new knowledge came a new perception of the world.

This feat would not have been possible without the perseverance, inquisitive nature and smart detective work of Thomas Young and Jean François Champollion.

Much like the men who set out to and succeeded in 'cracking the impossible code' two centuries ago, our perseverance is unlocking the key—the knowledge—that will change exploration. Our detective work—our exploration—has and will continue to chart uncharted territory in our quest for Big Gas.

Many of our exploration tools are being crafted by our own team, through the development of a series of Competitive Advantages. In the area of New Play Types, we ask "what if" rather than limiting ourselves to "what is." In Science & Technology, we have pushed the envelope in taking exploration techniques to a new level.

To address the risk of exploration, we built our team around individuals with extensive experience in Devonian geology and an impressive track record of big discoveries to their credit. To this we added the disciplines of a risk management team.

To guide our path, we created a solid business plan which is built around six core strategies that we've progressed significantly in the past year.

This is our map of discovery, our Rosetta Stone.

We're on the right course. And we're sticking to the map. Here's the routes that will take us there, and our progress during 2001.

CORE STRATEGY 1

We're creating a Learning Organization of Strong Intellectual Capital:

Our Board of Directors grew from 6 to 8 members. Doug Taylor was appointed to the Board in March and Jeff Smith was appointed to the Board in May.

Our Exploration Advisory Board grew from 2 to 8 members. Chaired by Curt Hartzler, the Board's extraordinary level of expertise in geology, geophysics and engineering is proving invaluable.

Our team of full-time finders grew with the addition of Dr. Caush Xhufi, a talented geophysicist, in April.

CORE STRATEGY 2

We Inverted and Strengthened the Intellectual Capital Hierarchy:

11 people are creating wealth full-time at Rosetta. Factoring in our Board of Directors and Exploration Advisory Board, the number rises to 25—a 38% increase over last year. Our Advisory Board receives no salary, save for its chairman, who works full time at Rosetta. The support team comprises 5 individuals in the areas of communications, land, geo-technical and administration.

The table below describes Rosetta's investments from July 1999 to year-end 2001. It shows that 88% of monies invested have been devoted to wealth creation.

Category	Total Expenditures July 1, 1999 - December 31, 2001
New Play Type	$ 1,000,000
Competitive Technologies	1,000,000
Conventional Exploration	13,100,000
Operations	1,400,000
Drilling and Recompletions	2,200,000
G&A *(Administration and Risk Management)*	2,500,000
Total Expenditures	21,200,000
Acquisitions/Dispositions	(1,400,000)
Net Expenditures	$19,800,000

88%

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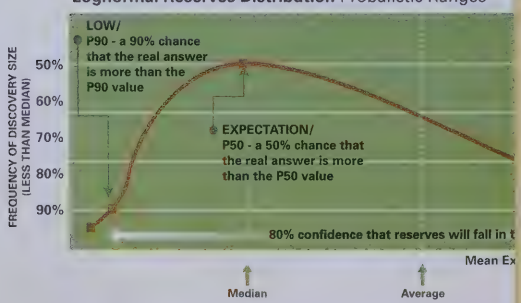
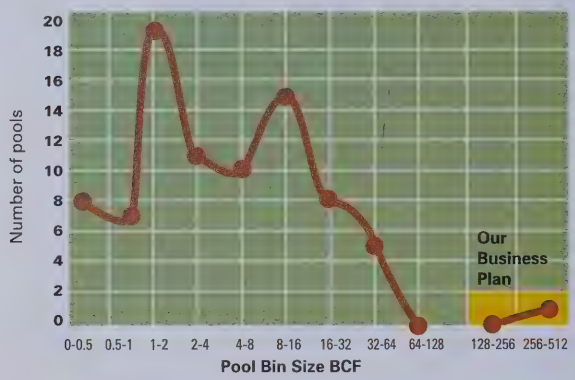


CORE STRATEGY 3

We're Developing Sustainable Competitive Advantages:

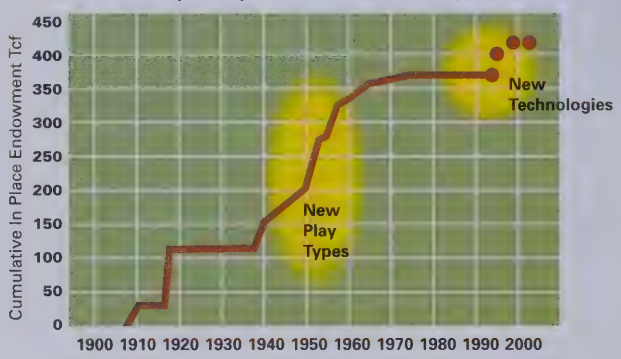
We're investing in our Competitive Advantages to help us 'beat the odds' in making prolific discoveries. Note that a distribution curve of the Devonian discoveries made during the 1990's shows that the number of BCF pool sizes in our target prize range (100 BCF or greater) is miniscule.

Pool size distribution chart of 1990's Devonian Exploration Successes



The graph below was adapted from the 1997 and 2001 reports of the Canadian Natural Gas Potential Committee on "Natural Gas Potential in Canada." It shows that the majority of new play types were discerned 40-50 years ago and resulted in epic discoveries. 1990's discoveries were more dependent upon the advent of new technologies, such as 3D seismic and horizontal drilling. Therefore, Rosetta's business plan focuses on these two drivers of discovery—the development of our own New Play Types and New Technologies—our "Competitive Advantages". We believe them to be an imperative to our success.

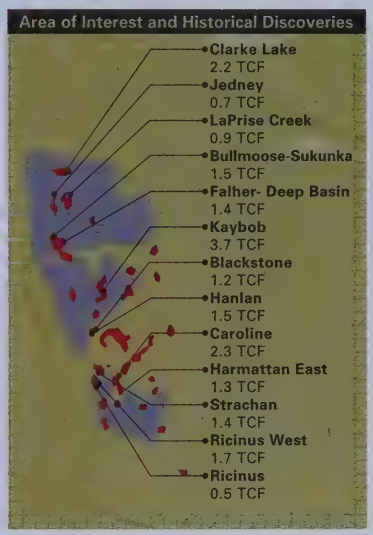
Cumulative Discovery History Western Canada Sedimentary Basin Gas Plays



CORE STRATEGY 4

We're Focusing on Natural Gas in the Western Canadian Sedimentary Basin:

We're targeting high impact, high reward natural gas Prospects. Our Area of Interest is west of the Fifth Meridian, encompassing Foothills plays and the Deep Devonian Reefs from west-central Alberta into northeast British Columbia.

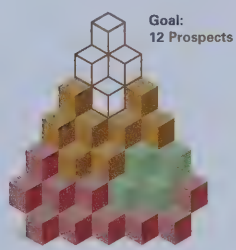


CORE STRATEGY 5

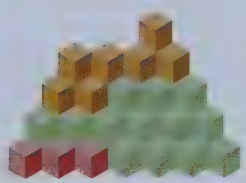
Exploring with the Drill Bit:

We've added a major Prospect—our most significant yet—to our Prospect inventory. The addition of Cleopatra and the grouping of our Mississippian and Cretaceous Prospects equated to eight Prospects at year-end. Four Leads were eliminated based upon new information and four Leads were demoted to Plays during 2001.

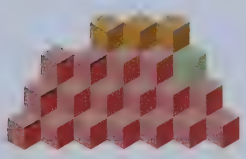
Our Project Portfolio



2001
10 Plays 4 Leads 8 Prospects



2000
3 Plays 13 Leads 7 Prospects



1999
17 Plays 1 Lead 3 Prospects

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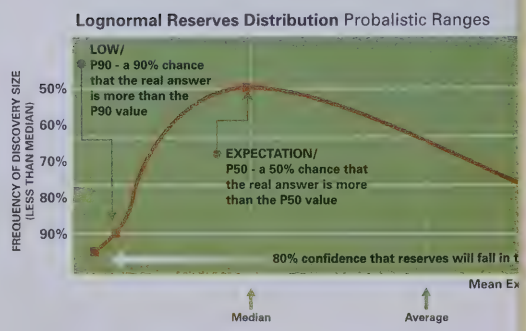


CORE STRATEGY 6

We're Managing our Business within the Context of a Risk Management Philosophy:

Our Risk Management philosophy is more than simply building 12 large Prospects, the strategies are designed to increase the size of the prizes we find, increase our chances of success and decrease costs.

How have we done?

- Our Core Technology is being designed to uncover big prizes while increasing our chance of success
- We added a new Prospect with a P50 unrisked potential prize of 530 BCF
- Our $4.5 million private placement in December restored our balance sheet and further strengthened our commitment to the company; the team and associates have placed over $5 million of their own money into the vision
- As a company we continue to discipline ourselves to adhere to our 11 principles of managing risk in addition to a sub-set of theories detailed in last year's annual report (see Aberdeen study, page 15) with a view to maximizing returns

Here's our progress over the course of the year:

1) **Pursuing Large Reserves:**
We attempt to increase the size of the prize by targeting deep Devonian horizons—home to most of the basin's prolific discoveries. Our team are experts in this geology. Three of our eight Prospects have potential of more than 100 BCF (P50 unrisked potential prize). Statistically, the traditional 'manufacturing model' of pursuing small targets is riskier than large target exploration when you consider both return 'of' capital and return 'on' capital.

2) **Creating Sufficient Prospects for Statistical Success:**
As explained on page 15 of the Annual Report, results from our study of historical success rates, economic research and statistical analysis point to 12 Prospects as being able to provide us with a 90% chance of having some success. To be an efficient portfolio however, *all* Prospects should be greater than 100 BCF. We're *approaching* a portfolio with eight Prospects, but we're nowhere near being an efficient portfolio.

3) **Drilling Multi-zone Potential:**
Ideally, our targets have multi-zone potential. In the wells we're targeting for drilling in 2002, the Luxor MC program is the best example of this.

4) **Partnering:**
A key element of Rosetta's business plan is to have a drilling partner. Our goal was to attract a US drilling partner who would exclude themselves from our 70,000 square mile Area of Interest. Many US companies liked our plans but found a 70,000 square mile exclusion too prohibitive. In June 2001, we did reach a letter of intent with a US drilling partner. Our Board believed it wasn't in our best interest to conclude this arrangement and it was subsequently terminated. From September to December, our efforts were focused on raising funds, which diverted us from partnering. In late December, a major asked for, and we gave, a 90-day exclusive on our Luxor Amun Prospect. In March, that party decided not to proceed, and we've been engaged in discussions with potential partners ever since.

5) **Deploying Our Explorationists in a Check and Balance System:**
Please see our biographies section. It's worth noting that our newly expanded Exploration Advisory Board is integral to the Prospect evaluation process. The Advisory Board has given insights that derailed projects which would have been Prospects. Our current Prospects have been reviewed by our Advisory Board and as one member said, "I've seen more good geology today than I've seen in the past 12 years."

6) **Managing our Business within the Context of a Rate of Return Model:**
We continue to target an annual after tax rate of return of 21% on all capital employed beginning from July 1999. We intend to monetize our successes when prudent.

7) **Purchasing Production Only when it Advances Exploration:**
Production is distracting from exploration. We only purchase it when it advances exploration. In June, we made a strategic purchase of Coast Pacific Exploration (cost: $1.4 million). The transaction resulted in the aquisition of 11,000 net acres, 187 square miles of 3D seismic and small interests in two producing Elkton wells. Shortly following the acquisition, Rosetta divested the two producing wells and associated acreage in the same area for proceeds of $1.0 million. The 3D seismic coverage and remaining acreage fit into Rosetta's exploration efforts.

8) **Using Science & Technology:**
Developing New Science and Technology lies at the heart of what we do; it is designed to lower our risk, reduce costs and increase the size of the prize. Should our Core Technology be successful, it will lower the size of the portfolio required for statistical success (see principle #2).

9) **Invoking a Land Strategy Designed to Acquire Large Blocks of Inexpensive Land on our Ideas:**
In 2001, we purchased 56,000 net acres at an average cost of $50 per acre for crown acquisitions compared to the Alberta average of $109 per acre and the Foothills area average of $190 per acre. Of this, 38,600 net acres are related to our current Leads and Prospects.

10) **Pursuing a Seismic Strategy which Provides for Inexpensive Seismic Review Early on our Ideas:**
We're testing our Core Technology to use comparatively inexpensive 2D seismic to 'see' geology more clearly than it could be seen before. Results are encouraging.

11) **Having the Financial Strength to Implement our Business Plan:**
We successfully raised $4.5 million at year-end in a flow-through private placement. Management and the Board felt it prudent to strengthen our balance sheet because of the delays to our drilling program.

Deviations from our Risk Management Principles:
In 2002 we intend to commence drilling with less than 12 Prospects and without full deployment of our Core Technology. This will be done with a more traditional partnering approach including Rosetta participating for some portion of the wells drilled. Rosetta will also include some shallower prospecting for cash flow. We will make every effort to complete and deploy our Core Technology and add Prospects while pursuing the drilling of the Program as outlined on page 16 (Figure 5).

Definition

Throughout this annual report you've come across the terms 'Play', 'Lead', and 'Prospect' time and again.

More than technical jargon, these terms represent the heart of Rosetta, because we're seeking to develop an efficient portfolio of Prospects, and we have developed our own, very specific definitions to these words.

A **Play** represents the early stages of an exploration concept that is being actively pursued and which could result in a drillable Prospect. A Play consists of a family of potential Prospects with similar geologic characteristics. We devote a great deal of intellectual capital here, but nominal dollar capital at this point.

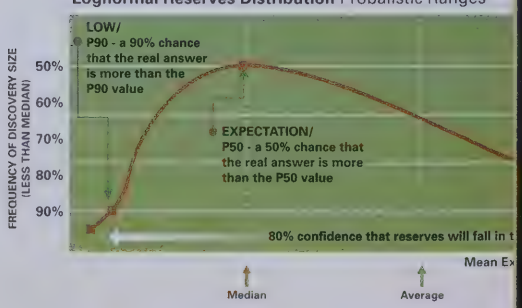
Plays graduate into...

Leads, meaning a potential Prospect that requires additional G&G work to evaluate its viability. When our team agrees that the Lead is firming up, we begin spending significant geo-technical capital and develop a land strategy for it. At this point, we'll likely acquire sufficient land to secure the Lead should it develop into a drillable Prospect.

Leads graduate into...

Prospects, meaning the location is defined, 90% of the technical work is complete, significant land is owned and the location is ready to be drilled.

Lognormal Reserves Distribution Probalistic Ranges



Auditors' Report

To the Shareholders of Rosetta Exploration Inc.

We have audited the consolidated balance sheets of Rosetta Exploration Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Alberta
March 8, 2002
Chartered Accountants

Rosetta Exploration Inc.

Management's Discussion and Analysis

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes.

Rosetta's focus throughout 2001 continued to be the development of Core Technologies and New Play Types (Competitive Advantages), the development of Plays, Leads and Prospects through conventional exploration, and the search for potential strategic partner(s) to drill the Company's Prospects.

Results of Operations

Gas production from the Company's 2-22 well at Strachan remained fairly consistent at an average 432 mcf per day (working interest share) compared to 2000 production of 450 mcf per day. The average gas price declined to $4.97 per mcf from $5.29 in 2000. This price decline plus the sale of some minor oil producing properties during 2000 resulted in the Company's revenue decreasing to $803,848 in 2001 from $1,187,842 in the previous year. Royalties on the Company's production averaged six percent for a total of $47,752 as compared to 11 percent and $130,008 in 2000. Operating costs decreased on a total basis to $254,943 from $281,798; however, on a unit basis they increased from $1.33 to $1.58 per mcfe.

Interest income decreased to $485,546 as compared to $603,552 in the prior year as a result of a decline in both interest rates and the Company's remaining cash balance.

General and administrative expenses increased to $2,545,336 from $1,914,064 in 2000 as a result of increased staff expenses and the cost of office premises. The Company continued its policy of not capitalizing any of these expenditures.

The Company analyzed its asset base in complete detail at the end of the year and as a result of the ceiling test calculation, it wrote down the book value related to the existing reserves. In previous years, the estimated reserves were prepared on a volumetric basis. Given adequate production history of the Strachan 2-22 well, the reserve report for the well was prepared this year on a decline analysis basis which reduced the proven recoverable reserves to one-half of previous estimates. This reduction in recoverable reserves and the reduction in year-end gas price resulted in a ceiling value shortfall.

The $5,000,000 write-down was as follows: a write-down of $4 million on reserve assets, $0.9 million on seismic assets, and the Company's remaining United States book value of $91,287.

Capital Expenditures

The Company's 2001 capital program consisted primarily of acquiring additional land and seismic assets on its Leads and Prospects, incurring expenditures of $2.4 and $1.3 million respectively. Costs associated with the drilling of a well to test a corporate Competitive Advantage and a workover totaled $1.5 million. Minor dispositions of undeveloped land resulted in proceeds of $226,000. Net expenditures in 2001 totaled $5,612,260 as compared to $6,397,461 in 2000.

In pursuit of Play and Lead development, Rosetta acquired a private company, Coast Pacific Geo-Exploration Limited ("Coast Pacific"), which had both strategic land and seismic positions in various areas that the Company had been analyzing. The acquisition of Coast Pacific and subsequent disposition of the associated producing properties resulted in a net $0.4 million expenditure. Rosetta retains certain prospective undeveloped lands and 3D seismic assets.

As at December 31, 2001, the Company has approximately $17.1 million of tax pools available to apply against future taxable income.

Liquidity and Capital Resources

At the end of 2001, the Company issued 3,620,200 flow-through shares at a price of $1.25 per share for gross proceeds of $4,525,250. These proceeds were renounced to investors in 2001 and Rosetta has until the end of 2002 to incur the expenditures. The tax benefits foregone of approximately $1.9 million will be recorded in the financial statements as the expenditures are incurred.

Rosetta commenced 2001 with a net working capital position of $14.8 million, raised equity proceeds of net $4.4 million, and expended net $5.6 million on capital expenditures and $1.6 million on operating activities. Net working capital totaled $12 million at year-end, which allows the Company to fund ongoing costs of operations, continue in the development of its Plays, Leads and Prospects, and pursue its Competitive Advantage strategies. The Company continues discussions with potential partners to create strategic alliances to commence drilling during 2002.

Accounting Policy and Disclosure Changes Subsequent to 2001

In August 2001, the Canadian Institute of Chartered Accountants (CICA) approved new accounting standards for (i) Business Combinations and (ii) Goodwill and Other Intangible Assets. Goodwill and intangible assets with an indefinite life will no longer be amortized, but will be tested for impairment at least on an annual basis. Intangible assets with definite lives will continue to be amortized over their useful lives and tested for impairment when conditions indicate that carrying value may not be recoverable in its entirety. The Company will adopt the new accounting standards prospectively beginning January 1, 2002, and it is expected that adoption of the new standards will have no material effect on the Company's financial position or earnings in 2002.

In September 2001, the CICA approved new accounting standards for Stock-Based Compensation and Other Stock-Based Payments (Section 3870). The new standard encourages, but does not require, the use of the fair value based method of accounting, except for certain stock awards for which the fair value method must be used. Under the new standards, the fair value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise prices, the expected life of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The new standards apply to awards granted on or after the date of adoption. The Company will adopt the new accounting standards prospectively beginning January 1, 2002, and it is expected that adoption of the new standards will have no material effect on the Company's financial position or earnings in 2002.

Rosetta Exploration Inc.

Consolidated Balance Sheets

December 31

	2001	2000
Assets		
Current		
Cash and cash equivalents *(note 4)*	**$ 12,188,238**	$ 14,911,018
Accounts receivable	**233,000**	1,199,314
Shareholders' loans	**28,250**	18,100
Promissory note *(note 5)*	**184,007**	-
Prepaid expenses and deposits	**86,590**	69,905
	12,720,085	16,198,337
Property and equipment *(notes 6 and 12)*	**11,231,613**	11,627,424
	$ 23,951,698	$ 27,825,761
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 749,820**	$ 1,407,385
	749,820	1,407,385
Provision for site restoration and abandonments	**103,708**	64,760
Future income taxes *(note 8)*	**-**	46,050
	$ 853,528	$ 1,518,195
Commitments *(note 9)*		
Shareholders' Equity		
Share capital *(note 7)*	**32,549,888**	28,191,681
Deficit	**(9,451,718)**	(1,884,115)
	23,098,170	26,307,566
	$ 23,951,698	$ 27,825,761

See accompanying notes.

On behalf of the Board

James A. Malcolm
Director

Murph N. Hannon
Director

Rosetta Exploration Inc.

Consolidated Statements of Operations and Deficit

Year Ended December 31

	2001	2000
Revenue		
Petroleum and natural gas sales	**$ 803,848**	$ 1,187,842
Royalties, net of ARTC	**(47,752)**	(130,008)
	756,096	1,057,834
Interest income	**485,546**	603,552
	1,241,642	1,661,386
Expenses		
Production	**254,943**	281,798
General and administrative	**2,545,336**	1,914,064
Interest	**-**	11,977
Depletion and depreciation *(note 6)*	**5,986,515**	763,035
Site restoration	**33,148**	28,284
	8,819,942	2,999,158
Loss for the year before taxes	**(7,578,300)**	(1,337,772)
Provision for capital taxes *(note 8)*	**(35,353)**	(37,000)
Future income tax recovery *(note 8)*	**46,050**	989,483
	10,697	952,483
Loss for the year	**(7,567,603)**	(385,289)
Deficit, beginning of year	**(1,884,115)**	(1,498,826)
Deficit, end of year	**$ (9,451,718)**	$ (1,884,115)
Loss per share *(notes 3 and 7)*	**$ (0.29)**	$ (0.02)

See accompanying notes.

Rosetta Exploration Inc.

Consolidated Statements of Cash Flows

Year Ended December 31

	2001	2000
Operating		
Loss for the year	**$ (7,567,603)**	$ (385,289)
Non-cash administrative	**2,250**	-
Depletion and depreciation	**5,986,515**	763,035
Site restoration	**33,148**	28,284
Future income tax recovery	**(46,050)**	(989,483)
Funds used in operating activities	**(1,591,740)**	(583,453)
Changes in non-cash working capital *(note 11)*	**135,414**	(27,553)
Cash used in operating activities	**(1,456,326)**	(611,006)
Financing		
Issue of common shares, net of issue costs	**4,355,956**	18,223,808
Employee loans for purchase of shares	**(28,250)**	(18,100)
Employee loans repaid	**18,100**	-
Cash provided by financing activities	**4,345,806**	18,205,708
Investing		
Expenditures on undeveloped land	**(2,436,444)**	(2,262,982)
Expenditures on seismic	**(1,331,399)**	(2,692,667)
Expenditures on producing assets	**(1,460,350)**	(2,260,901)
Expenditures on office equipment	**(238,630)**	(81,639)
Acquisition of Coast Pacific *(note 5)*	**(1,443,368)**	-
Proceeds on disposal of subsidiary *(note 5)*	**837,709**	-
Proceeds on disposal of property and equipment	**226,000**	1,115,009
Changes in non-cash working capital *(note 11)*	**234,222**	(214,281)
Cash used in investing activities	**(5,612,260)**	(6,397,461)
(Decrease) increase in cash and cash equivalents	**(2,722,780)**	11,197,241
Cash and cash equivalents, beginning of year	**14,911,018**	3,713,777
Cash and cash equivalents, end of year	**$ 12,188,238**	$ 14,911,018
Funds used in operations per share *(notes 3 and 7)*	**(0.06)**	(0.03)

See accompanying notes.

Rosetta Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2001

1. Nature of operations

Rosetta Exploration Inc. (the "Company") is engaged in the exploration for and production of petroleum and natural gas predominately in Western Canada. The Company was incorporated under the laws of the Province of Alberta and is listed on the Canadian Venture Exchange.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries, Villam Resources Co., a Montana corporation and Coast Pacific Geo- Exploration Limited.

a) Property and equipment

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country by country basis, being Canada and the United States. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells and equipment costs. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such sale would alter the depletion rate by more than 20%.

ii) Depletion and depreciation

Depletion and depreciation of undeveloped land, seismic and producing assets, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated gross proven petroleum and natural gas reserves as determined by independent engineers. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

iii) Impairment test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of its producing assets, net of recorded future income taxes and the accumulated provision for future site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of gross proven reserves. Net cash flow is estimated using year end prices, less estimated future general and administrative expenses, financing costs, estimated future site restoration and abandonment costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against operations in the period as additional depletion and depreciation. Undeveloped land and seismic are tested for impairment annually based on their estimated market value.

b) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for site restoration and abandonments and the ceiling test are based on estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

c) Site restoration and abandonment costs

The estimated cost of site restoration and abandonments is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration and abandonment costs are accrued on the unit-of-production basis based on gross proven reserves. The provision is recorded on the statement of operations. Future site restoration and abandonment expenditures are charged to the accumulated provision as incurred.

d) Joint operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) Flow-through shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. For accounting purposes, the tax effect of the renouncement is recorded when the corresponding exploration and development expenditures are incurred.

f) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted.

g) Stock-based compensation plan

The Company has a stock based compensation plan, which is described in note 7. No compensation expense is recognized for this plan when stock options are issued to employee, directors or consultants. Any consideration paid on the exercise of stock options is credited to share capital.

Notes to the Consolidated Financial Statements

December 31, 2001

3. Change in accounting policy

The Company has retroactively adopted the new Canadian Institute of Chartered Accountants recommendations for per share calculations. The new standard utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding in the money options are used to purchase common shares of the Company at their average market price for the period. The new method was applied retroactively with no impact on the 2000 diluted per share amounts. Previously, the Company utilized the imputed earnings method to calculate diluted per share amounts.

4. Cash and cash equivalents

	2001	1999
Cash in bank	**$ 1,221,178**	$ 810,250
Term deposits	**10,967,060**	14,100,768
	$ 12,188,238	$ 14,911,018

The term deposits outstanding as at December 31, 2001 have terms of less than 90 days and bear interest at an average rate of 2.1% (2000 – 5.7%).

5. Acquisition

In June 2001, the Company acquired all of the issued and outstanding shares of Coast Pacific Geo-Exploration Limited ("Coast") for total cash consideration of $1,762,895 including $89,661 of acquisition costs. The transaction has been accounted for using the purchase method. Related to this transaction, the Company sold certain Coast assets to an unrelated third party in exchange for a $999,999 promissory note plus interest, of which $821,957 plus interest of $15,752 had been received as at December 31, 2001. The note is due on January 4, 2002 and if the funds have not been received, the Company has the right to realize on its collateral, being the underlying assets. These transactions have been accounted for on a combined basis as of June 26, 2001.

The net proceeds from these transactions have been allocated as follows:

Cash	$ 319,527
Non-cash working capital	77,572
Promissory note receivable	1,021,716
Property, plant and equipment, net	349,880
Future site restoration	(5,800)
	$ 1,762,895
Less: cash	(319,527)
Net cash outlay	**$ 1,443,368**

Notes to the Consolidated Financial Statements

December 31, 2001

6. Property and equipment

	2001		
Canadian cost centre	Cost	Accumulated depletion and depreciation	Net
Undeveloped land	$ 7,274,065	$ 436,000	$ 6,838,065
Seismic	4,958,134	1,203,097	3,755,037
Producing assets	6,528,018	6,199,827	328,191
United States cost centre	917,689	917,689	-
Office equipment	542,580	232,260	310,320
	$ 20,220,486	$ 8,988,873	$ 11,231,613

	2000		
Canadian cost centre	Cost	Accumulated depletion and depreciation	Net
Undeveloped land	$ 4,674,118	$ 210,200	$ 4,463,918
Seismic	3,666,358	404,697	3,261,661
Producing assets	5,065,664	1,447,014	3,618,650
United States cost centre	919,692	814,053	105,639
Office equipment	303,950	126,394	177,556
	$ 14,629,782	$ 3,002,358	$ 11,627,424

As at December 31, 2001, undeveloped land includes $3,323,699 (2000 - $2,484,492), which has been excluded from the depletion calculation.

The Company did not capitalize any general and administrative costs during 2001 and 2000.

As a result of the ceiling test calculation in 2001, the Company reduced the carrying value of its Canadian producing assets by $4,058,713, its seismic assets by $900,000 and its United States petroleum and natural gas properties by $91,287 (2000 - $69,781).

Notes to the Consolidated Financial Statements

December 31, 2001

7. Share capital

Authorized:

Unlimited number of Class A and B common shares, no par value

Unlimited number of Class A preferred shares, issuable in series, no par value

Issued:

Class A common shares	**Number of Shares**	
Balance – December 31, 1999 (a)	**10,647,715**	**$ 11,003,406**
Issued pursuant to:		
Private placements (b)	8,789,850	10,987,313
Conversion of Class A preferred shares (c)	6,000,000	7,500,000
Exercise of stock options	46,000	45,500
Flow-through Class A common shares (d)	160,000	220,000
Private placements (d)	32,910	36,200
Share issue costs *(net of tax of $252,200)*	-	(313,006)
Tax benefits related to renounced expenditures on flow-through shares	-	(1,287,732)
Balance – December 31, 2000	**25,676,475**	**$ 28,191,681**
Exercise of stock options	**3,000**	**4,500**
Flow-through Class A common shares (e)	**3,620,200**	**4,525,250**
Share issue costs	**-**	**(171,543)**
Balance – December 31, 2001	**29,299,675**	**$ 32,549,888**

a) Retroactively restated to reflect a 1 for 5 Class A common share consolidation approved by shareholders in July 2000.

b) During 2000, pursuant to private placements, 8,789,850 Class A common shares were issued at $1.25 per share for gross proceeds of $10,987,313.

c) During 2000, pursuant to private placements, 6,000,000 Class A preferred shares were issued at $1.25 per share for gross proceeds of $7,500,000. The Class A preferred shares were subsequently converted to 6,000,000 Class A common shares.

d) During 2000, pursuant to employee plans, 160,000 flow through Class A common shares and 32,910 Class A common shares were issued for gross proceeds of $256,200.

e) During 2001, 3,620,200 flow-through Class A common shares were issued at $1.25 per share for gross proceeds of $4,525,250. At December 31, 2001, these proceeds were renounced to the investors and the Company has until December 31, 2002 to incur the expenditures. The tax benefits foregone of $1,883,400 will be recorded in the financial statements as the expenditures are incurred.

Options and warrants outstanding

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the plan, the options that have been granted expire at the earlier of September 29, 2005 or 30 days (six months for those granted in 1999) from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company.

Notes to the Consolidated Financial Statements

December 31, 2001

7. Share capital (continued)

The options that were granted up to December 31, 1999 vest immediately (486,000 options). The options that were granted during 2000 vest one-third per year commencing on June 1, 2001 (1,332,800 options). During 2001, 140,000 options that were granted vest one-third per year commencing on June 30, 2002 and 200,000 options that were granted, vested one-third immediately and one-third on each anniversary date of issuance.

The following is a continuity of stock options outstanding for which shares have been reserved:

	Year ended December 31, 2001		Year ended December 31, 2000	
	Shares	**Weighted-Average Exercise Price $**	**Shares**	**Weighted-Average Exercise Price $**
Opening	**1,910,800**	**1.42**	636,000	1.25
Canceled	**(92,000)**	**1.34**	(44,000)	1.25
Exercised	**-**	**-**	(46,000)	1.25
Granted	**340,000**	**1.50**	1,364,800	1.50
Closing	**2,158,800**	**1.44**	1,910,800	1.42

The following summarizes information about stock options outstanding as at December 31, 2001:

Exercise Price $	**Number Outstanding At December 31, 2001**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted-Average Exercise Price $**	**Number Exercisable At December 31, 2001**	**Weighted Average Exercise Price $**
1.25	**486,000**	**3.8**	**1.25**	**486,000**	**1.25**
1.50	**1,672,800**	**3.8**	**1.50**	**510,933**	**1.50**
	2,158,800	**3.8**	**1.44**	**996,933**	**1.38**

On July 27, 2001, 80,000 common share purchase warrants expired.

Per share amounts

Per common share calculations are based on the weighted average number of common shares outstanding during the year of 25,777,141 (2000 – 19,948,085). Diluted per share amounts are not shown as all of the stock options are out of the money and are therefore anti-dilutive.

Notes to the Consolidated Financial Statements

December 31, 2001

8. Income taxes

The Company's computation of income tax expense is as follows:

	2001	2000
Expected income tax recovery at 42.62% (2000 – 44.62%)	**$ (3,208,561)**	$ (596,915)
Crown royalties and production taxes	**52**	23,907
Alberta royalty tax credit	**(13)**	(2,650)
Resource allowance	**234,468**	78,618
Other	**(38,124)**	6,087
Capital taxes	**35,353**	37,000
Unrecognized (recognized) benefit of losses carried forward	**2,966,128**	(498,530)
Income tax recovery	**$ (10,697)**	$ (952,483)

Components of future income taxes

The Company has not recognized net future tax assets as reflected by the valuation adjustment reported below. The net future tax asset / (liability) comprises:

	2001	2000
Differences between tax base and reported amounts of depreciable assets		
Non-capital loss carryforwards	**$ 1,762,062**	$ 1,111,586
Provision for future site restoration	**44,200**	28,896
Share issue costs	**230,858**	266,832
Other	**885,856**	(417,824)
Valuation adjustment	**(2,922,976)**	(1,035,540)
Provision per financial statements	**$ -**	$ (46,050)

As at December 31, 2001, the Company has the following approximated tax pools available for deduction against future taxable income.

	$ 5,400,000
Canadian oil and gas property expense	**5,700,000**
Canadian exploration expense	**1,000,000**
Canadian development expense	**1,000,000**
Undepreciated capital cost	**4,000,000**
Non-capital loss carryforwards	**$ 17,100,000**

These non-capital losses will expire as follows:	**$ 200,000**
2002	**700,000**
2005	**1,500,000**
2006	**600,000**
2007	**1,000,000**
2008	**$ 4,000,000**

Notes to the Consolidated Financial Statements

December 31, 2001

9. Commitments

The Company has the following annual rental commitments on office premises pursuant to a lease which expires on October 31, 2003:

2002	$130,300
2003	$108,300

10. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash and cash equivalents, accounts receivable, shareholders' loans, promissory note and accounts payable and accrued liabilities. As at December 31, 2001 and 2000 there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

b) Credit Risk

The majority of the Company's accounts receivable are in respect of oil and natural gas operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

11. Change in non-cash working capital

	2001	2000
Accounts receivable	**$ 966,314**	$ (927,385)
Accounts payable	**(657,565)**	654,384
Prepaid expenses	**(16,685)**	31,167
Working capital acquired from Coast	**77,572**	-
	$ 369,636	$ (241,834)
The changes in non-cash working capital have been allocated to the following activities:		
Operating	**$ 135,414**	$ (27,553)
Investing	**$ 234,222**	$ (214,281)

12. Related party

The Company paid approximately $500,000 to a private corporation that two directors of Rosetta are significant shareholders of, in return for exclusive use of the proprietary technology being developed for a minimum of two years. This amount is included in the seismic category in property and equipment.

Rosetta Exploration Inc.
Shareholder Information

Stock Exchange Listing
Canadian Venture Exchange
Trading Symbol: RSA

Registrar and Transfer Agent
CIBC Mellon Calgary, Alberta

Investor Relations
Christian Brown
Communications Team Leader
(403) 221-7709
E-mail: cbrown@rosettaexploration.com

Corporate Information
Corporate Head Office
Suite 2100, 801 – 6th Avenue S.W.
Calgary, Alberta T2P 3W2
Telephone (403) 221-7700
Fax (403) 221-7719
www.rosettaexploration.com

Bankers
Royal Bank of Canada
Calgary, Alberta

Auditors
Ernst & Young LLP
Calgary, Alberta

Legal Counsel
Macleod Dixon
Calgary, Alberta

Board of Directors
Mr. Clive Beddoe
Chairman, President & Chief Executive Officer of WestJet Airlines Ltd.

Mr. Kevin Brown
President and Managing Director, ARC Financial Corporation

Mr. Murph Hannon
President, Canadian Hydrodynamics Ltd.
President, Murcon Development Ltd.

Mr. James Malcolm
Chairman of the Board & Chief Executive Officer, Rosetta Exploration Inc.

Mr. Robert McKenzie
President, RSM Investments Ltd., Partner, Northridge Canada

Mr. Greg Royer
President, Royco Hotel & Resorts
President, NRG Management Services

Mr. Jeff Smith
Self-employed Consultant and Private Investor
Professional Geologist

Mr. Doug Taylor
Manager of Special Projects, Emergo Canada Ltd.

Officers
Mr. James Malcolm
Chairman of the Board
& Chief Executive Officer

Mr. Ross Clark
Managing Director

Mr. Glenn Gradeen
Managing Director

Mr. Robyn Lore
Managing Director

Mr. Robert Malcolm, QC
Secretary

Committees

Audit Committee
The Audit Committee reviews and recommends approval of the Company's financial statements to the Board of Directors in addition to ensuring that appropriate internal controls over accounting and financial reporting systems are met. Members of this committee are: Murph Hannon, James Malcolm and Robert McKenzie.

Compensation Committee
The Compensation Committee guides the salary level of directors, officers and employees, awards stock options to personnel and reviews the general competitiveness of the Company's compensation and benefits plan. Members of this committee are: Kevin Brown, Greg Royer and Doug Taylor.

Exploration Advisory Board
Dr. Bill Ayrton
Professional Geologist

Mr. Nor Hannon
Professional Geological Engineer, Geophysicist, Geologist

Mr. Curt Hartzier
Chairman of the Advisory Board, Professional Engineer

Mr. Ralph Hughes
Retired Professional Engineer

Mr. Ed McMaster
Professional Engineer

Mr. Hugh Reid
Professional Geologist

Mr. Allan Shepard
Retired Professional Geologist

Dr. A. Easton Wren
Professional Geophysicist

Risks
The Company's future exploration and development success cannot be predicted with certainty and crude oil and natural gas prices may change significantly in the future. Rosetta's ability to meet its primary objective of maximizing shareholder wealth is influenced by a number of factors, including the Company's ability to find oil and gas reserves economically and produce or monetize them efficiently. The oil and gas industry involves a wide variety of business risks which impact all participants and their financial viability.

These risks include, but are not limited to: risks associated with finding, acquiring, developing, producing and monetizing oil and gas properties at economic costs; securing markets for production or monetization of assets; fluctuating commodity prices and exchange rates; and, changes to government and other regulations.

Many of these business risks can be assessed, managed and mitigated through the adherence of well-defined strategies included in the Company's business plan.

Annual Meeting
The annual general meeting will be held at 10:00 a.m., on Friday, June 14, 2002 in the Marquis Room at the Fairmont Palliser, 133 9th Avenue S.W., Calgary, Alberta.

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